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Financial report and audited financial statements

for the biennium ended 31 December 2007 and

Report of the Board of Auditors

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Financial report and audited financial statements

for the biennium ended 31 December 2007

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Report of the Board of Auditors

Volume IV
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Note

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Abbreviations

BIOLAC	Programme for Biotechnology in Latin America and the Caribbean
CEB	United Nations System Chief Executives Board for Coordination
CRIS	Programme on Comparative Regional Integration Studies
EHS	Institute for Environment and Human Security
FBPMS	Financial, Budgetary and Personnel Management System
IAS	Institute of Advanced Studies
ICDF	Innovative Capacity Development Fund
IIGH	International Institute for Global Health
IIST	International Institute for Software Technology
ILI	International Leadership Institute
INRA	Institute for National Resources in Africa
INWEH	International Network on Water, Environment and Health
IPSAS	International Public Sector Accounting Standards
MERIT	Maastricht Economic and Social Research and Training Centre on Innovation and Technology
UNDP	United Nations Development Programme
UNU	United Nations University
WIDER	World Institute for Development Economics Research

Letters of transmittal

31 March 2008

In accordance with United Nations financial regulation 6.5, I have the honour to submit the accounts of the United Nations University for the biennium ended 31 December 2007, which I hereby approve. The financial statements have been completed and certified by the Controller.

Copies of these statements are also being transmitted to the Advisory committee on Administrative and Budgetary Questions.

(*Signed*) **Ban** Ki-moon

The Chairman of the Board of Auditors
United Nations
New York

30 June 2008

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations University for the biennium ended 31 December 2007.

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France and
Chairman, United Nations Board of Auditors

The President of the General Assembly of the
United Nations
New York

Chapter I

Financial report for the biennium ended 31 December 2007

A. Introduction

1. The General Assembly adopted the Charter of the United Nations University by its resolution 3081 (XXVIII) and decided that the University would have its headquarters in the Tokyo metropolitan area in Japan. Authority for the University's policies, work programmes and budget is vested in a Council of 28 members. The Rector, who normally serves for five years and is eligible for reappointment for one more term of five years, is the chief academic and administrative officer of the University.

2. The funds of the University are kept in a special account established by the Secretary-General of the United Nations. The Charter of the United Nations University provides that capital and recurrent costs of the University shall be met from the voluntary contributions to the University or from income derived therefrom.

3. The University maintains an Endowment Fund and separate operating funds for its 11 research and training centres and its headquarters. The Endowment Fund accumulates investments and also receives voluntary contributions. Income from investments in the Endowment Fund is used to support the activities of the University, which are accounted for in the respective operating funds. The operating funds also receive voluntary contributions directly from Governments as well as from non-governmental sources, United Nations entities, universities and individuals.

B. Financial position of the United Nations University

Statement I
Income and expenditure and changes in reserves and fund balances

4. Total income of the Endowment Fund during the biennium 2006-2007 amounted to $88.7 million compared with $32.5 million in the previous biennium, showing an increase of $56.2 million, due to increases in voluntary contributions, interest income and miscellaneous income. The breakdown is as follows (in thousands of United States dollars):

	2007	*2005*
Voluntary contributions	8 639	1 897
Interest income	51 707	30 622
Miscellaneous income	28 332	—
Total	**88 678**	**32 519**

5. During the biennium 2006-2007, higher voluntary contributions were due mainly to the $8 million received from the Government of Malaysia for the establishment of UNU-IIGH.

6. The increase in interest income is as a result of higher returns on investments of $2.8 million and higher gains on sale of investments of $18.3 million.

7. Miscellaneous income for the biennium 2006-2007 represents the net gain in foreign currency revaluation as compared to a net loss in revaluation in the previous biennium. In accordance with financial rules, net gains on foreign exchange revaluations are included in miscellaneous income, and net losses are included in operating expenses.

8. Total income for the operating funds amounted to $85.5 million in the current biennium, compared to $65.3 million in the previous biennium, showing an increase of $20.2 million. The breakdown is as follows (in thousands of United States dollars):

	2007	*2005*[a]
Voluntary contributions	44 539	33 534
Interest income	1 561	1 096
Income for services rendered	2 877	2 843
Other/miscellaneous income	2 674	828
Transfers from the Endowment Fund	27 897	11 402
Transfers from cumulative surplus	5 960	15 636
Total	**85 508**	**65 339**

[a] Comparative figures have been restated to conform to the current presentation.

9. As shown in statement I, the total expenditure of the operating funds of the University amounted to $76.1 million for the biennium, compared to $75.0 million in the previous biennium, as detailed below (in thousands of United States dollars):

Major object of expenditure	*2007*	*2005*
Staff and other personnel costs[a]	33 842	33 819
Travel	2 114	1 970
Contractual services	824	823
Operating expenses[b]	8 607	10 451
Acquisitions	963	775
Research and training networks, and dissemination	29 739	27 175
Total	**76 089**	**75 013**

[a] Includes costs of programme staff and consultants.
[b] Includes UNU headquarters building maintenance costs.

10. Effective in the biennium 2006-2007, authorized transfers from the Endowment Fund to the operating funds are shown as expenditures in the Endowment Fund, and as income in the respective operating funds. Such transfers totalled $27.9 million.

11. Effective in the 2006-2007 biennium, all the liabilities for end-of-service and post-retirement benefits are fully reflected in the financial statements. These liabilities which totalled $6.0 million as of 31 December 2005 were charged to the fund balance, and the net increase in the biennium 2006-2007 of $0.7 million is reflected as a non-budgeted expense of the current biennium.

Statement II
Assets, liabilities and reserves and fund balances

12. As of 31 December 2007, the total assets of the University increased to $376.3 million from $307.8 million as of 31 December 2005, owing primarily to the growth in the assets of the Endowment Fund.

13. The University's total accrued liabilities for after-service health insurance, unused vacation days and repatriation benefits, amounted to $6.7 million as of 31 December 2007 and were reflected in the statement of assets, liabilities and reserves and fund balances.

14. The fund balance for the Endowment Fund grew from $278.9 million as of 31 December 2005 to $336.6 million as of 31 December 2007, as gains on sales of investments, interest earnings and exchange gains exceeded transfers to the operating funds.

Annex

Supplementary information

1. The present annex includes supplementary information that the Secretary-General is required to report.

Double-counting in the financial statements

2. The financial statements of the United Nations University contain elements of double-counting of income and expenditure totalling $27,897,000. These amounts have been eliminated from the income and expenditure figures in statement I. Similarly, double-counting of inter-fund indebtedness and inter-office transactions pending processing totalling $13,183,000 and $7,311,000, respectively, has been eliminated from the asset and liability figures shown in statement II.

Write-off of losses of cash and receivables

3. During the biennium 2006-2007, the write-off of receivables amounting to $52,751 was approved under financial rule 106.8.

Write-off of losses of property

4. During the biennium 2006-2007, the write-off of properties amounting to $2,243 was approved under financial rule 106.9.

Ex gratia payments

5. There were no ex gratia payments during the biennium 2006-2007.

Chapter II
Report of the Board of Auditors

Summary

The Board of Auditors has audited the financial statements of the United Nations University for the biennium ended 31 December 2007. The audit was carried out through field visits to UNU-International Network on Water, Environment and Health (INWEH), Hamilton, Canada; UNU-Institute of Advanced Studies (IAS), Yokohama, Japan; UNU-International Leadership Institute (ILI), Amman, Jordan; UNU-World Institute for Development Economics Research (WIDER), Helsinki, Finland; UNU-Institute for Environment and Human Security (EHS), Bonn, Germany; UNU-Maastricht Economic and Social Research and Training Centre on Innovation and Technology (MERIT), Maastricht, the Netherlands; and UNU-International Institute for Software Technology (IIST), Macau, China; as well as a review of the financial transactions and operations at the UNU Centre in Tokyo, Japan.

The Board issued a modified opinion, with an emphasis of matter, on the financial statements for the period under review, as reflected in chapter III. The emphasis of matter relates to the transfers totalling $7 million from the opening cumulative surplus to income for the purpose of augmenting the budget for the biennium 2006-2007. UNU has also restated the comparative figures for the biennium 2004-2005 applying the same treatment to the cumulative surplus of $15.64 million. Although they did not affect the reserves and fund balances at the end of the biennium, the Board is concerned that such transfers distort the results of operations.

Coordination with internal audit

The Board continues to coordinate with the Office of Internal Oversight Services in the planning of its audit in order to avoid duplication of efforts and to determine the extent of reliance that could be placed on the work of the Office.

Follow-up on previous recommendations

In response to the request of the Advisory Committee on Administrative and Budgetary Questions and in line with paragraph 7 of General Assembly resolution 59/264 A, the Board evaluated the ageing of its previous recommendations that had not yet been fully implemented and has indicated the financial periods in which such recommendations were first made. UNU has implemented 8 out of 20 (40 per cent) prior biennium recommendations, and 12 (60 per cent) were partially implemented. The implementation rate in the current biennium was better compared with the previous biennium.

Overall financial overview

As at 31 December 2007, the UNU cash over total assets ratio was 0.10:1; as at 31 December 2005, it was 0.07:1. Although there was a slight improvement in the cash over total assets ratio, there was a substantial decline in the cash over total liabilities ratio, from 2.57:1 in the previous biennium to 1.89:1 in the current biennium.

Had there been no recognition of end-of-service liabilities amounting to $6.69 million in the 2006-2007 financial statements, total liabilities would have been only $12.31 million, instead of $19 million. Thus, the ratio of cash over total liabilities would also have been 2.92:1 in the current biennium, instead of 1.89:1.

Financial statement balances

Manual adjustments, reclassifications or regrouping of accounts which were done to the financial statement balances generated by the Financial, Budgetary and Personnel Management System (FBPMS) could not be traced to supporting documents and underlying records and were not appropriately authorized.

Statement of income and expenditure

For the period under review, total income was $148.40 million, compared with $89.02 million in the previous biennium, an increase of 66.7 per cent. Total expenditure amounted to $79.43 million, compared with $81.32 million for the previous biennium, a decrease of $1.89 million or 2 per cent. This resulted in an excess of income over expenditure of $68.97 million. Compared with the surplus of $7.69 million in the previous biennium, there was an increase of $61.28 million.

Statement of assets, liabilities and reserve and fund balances

Total assets increased from $307.83 million as at 31 December 2005 to $376.32 million as at 31 December 2007, a 22.25 per cent increase. Total liabilities also increased during the biennium under review, from $8.29 million to $19 million, or an increase of 129 per cent. That was due primarily to the recognition of end-of-service liabilities of $6.69 million. Total reserves and fund balances likewise increased by 19.29 per cent, from $299.54 million in 2004-2005 to $357.31 million in the biennium under review.

The cash pool account was overstated by $100,257 because the interest accruals were recorded as cash, instead of receivables.

End-of-service liabilities including after-service health insurance

The financial statements for the period under review reflected end-of-service liabilities amounting to $6.69 million. Of that amount, $3.94 million represented after-service health insurance; $1.28 million, unused vacation leave credits; and $1.47 million, repatriation benefits. End-of-service liabilities represented 35 per cent of total liabilities.

Results-based management/budgeting

In four research and training centres, the approved programme budgets for the biennium did not include specific objectives, quantifiable performance indicators, targets and accomplishments against which outcomes and outputs can be benchmarked.

Programme/project management

At the UNU Centre, project outputs, such as manuscripts which have been due since 2002 to 2005, had not yet been submitted as at audit date. At UNU-IIST and UNU-MERIT, expenditures incurred were in excess of allotments and at UNU-ILI, two projects were erroneously charged for expenditures pertaining to other projects.

The Board also noted that the salaries of researchers working on specific projects were not charged against the budgets of those projects, thus, misallocating individual project expenditures.

Procurement and contract management

Four research and training centres did not have a procurement plan for the biennium under review. Three other centres did not maintain a database of registered vendors and had some purchase orders that were not signed by the vendors.

Progress towards the implementation of IPSAS

UNU does not have its own International Public Sector Accounting Standards (IPSAS) adoption plan which would serve as its guide in monitoring the progress of IPSAS implementation.

Internal audit

The Office of Internal Oversight Services audited the Research and Training Centres at UNU-WIDER and UNU-MERIT in the last quarter of 2006. The focus of the engagement was research and programme management. No audit, however, was conducted by the Office of Internal Oversight Services at the other research and training centres or at the UNU Centre during the biennium 2006-2007.

Recommendations

The Board has made several recommendations based on its audit. The main recommendations are set out in paragraph 9 of the present report.

A. Introduction

1. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements of the United Nations University (UNU) and has reviewed its operations for the financial period from 1 January 2006 to 31 December 2007 in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, as well as the International Standards on Auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatements.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of the UNU as at 31 December 2007 and the results of its operations and cash flows for the financial period then ended, in accordance with the United Nations system accounting standards (UNSAS). This included an assessment of whether the expenditures recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations. The audit also included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews of the UNU operations under financial regulation 7.5, in accordance with which the Board made observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the UNU operations.

4. The present report addresses the specific request of the Advisory Committee on Administrative and Budgetary Questions to evaluate the ageing of the previous biennium's recommendations that were partially or not implemented. The General Assembly had also requested the Board to follow up on previous recommendations and to report on them accordingly. Those matters are addressed in paragraphs 11 to 19.

5. The Board continued to report the results of audits to UNU in the form of management letters containing detailed observations and recommendations. This practice allowed for ongoing dialogue with UNU. In this regard, eight management letters were issued covering the period under review.

6. Where observations in the present report refer to specific locations, such observations are limited only to the locations specified. They do not in any way imply that they are applicable to other locations nor do they imply that they do not also exist at other locations.

7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with the UNU administration, whose views have been appropriately reflected in the report.

2. Coordination with internal audit

8. The Board continues to coordinate with the Office of Internal Oversight Services in the planning of its audit in order to avoid duplication of effort and to determine the extent of reliance that could be placed on the work of the Office.

3. Main recommendations

9. **The Board's main recommendations are that UNU:**

(a) **Document, through the manual journal vouchers, the adjustments and reclassifications made in the course of preparing the final financial statements (para. 30);**

(b) **Address the limitations of the Financial, Budgetary and Personnel Management System (para. 30);**

(c) **Discontinue the practice of transferring cumulative surplus to income in the financial statements (para. 38);**

(d) **Specify the types of transactions that will be reflected in the cash pool accounts to distinguish these transactions from those pertaining to other bank accounts (para. 42);**

(e) **Tailor its programme planning, budgeting, monitoring and evaluation in accordance with the results-based budgeting concepts (para. 75);**

(f) **Maintain a complete and updated central file for all projects pursuant to the guidelines issued by the Central Monitoring and Inspection Unit (para. 75);**

(g) **Require programme officers/researchers to periodically assess the performance and extent of implementation of workplans to ensure the prompt submission of outputs for publication (para. 78);**

(h) **Formulate a policy on the reasonable allocation of the salaries of researchers in project costing (para. 84);**

(i) **Develop a plan detailing the various steps to be taken leading to the full implementation of the International Public Sector Accounting Standards by 2010 (para. 107).**

10. The Board's other recommendations appear in paragraphs 46, 49, 53, 55, 59, 63, 96, 101, 104 and 110. These recommendations do not address sanctions or disciplinary steps which UNU may wish to impose on defaulting officials for consistent failure to ensure compliance with the Financial Regulations and Rules of the United Nations, administrative instructions and other related directives.

B. Detailed findings and recommendations

1. Follow-up on previous recommendations

11. In accordance with section A, paragraph 7, of General Assembly resolution 51/225, the Board reviewed the actions taken by UNU to implement the recommendations made in its report for the biennium ended 31 December 2005.

12. Of the 20 recommendations that were made, 8 were fully implemented while 12 were partially implemented. The details are shown in the annex to the present chapter.

Recommendations partially implemented

13. Eight of the partially implemented recommendations pertain to improved financial reporting and monitoring of project expenditures versus accomplishments. UNU aims to address these concerns with the adoption of the Atlas system by 1 January 2009. Negotiations are ongoing for these changes in the financial management information system. The Board is of the view that UNU needs to actively participate in the implementation/customization of the Atlas system to ensure that all its requirements would be incorporated in the enhancements.

14. The recommendation for UNU-INWEH to "strictly utilize funds for the projects for which they are intended" (A/61/5 (Vol. IV), para. 51) was reported by UNU as an "implemented" recommendation. However, we deem it proper to categorize UNU action as "partially implemented". Budgets specifically earmarked for a particular programme were utilized for other programmes pending receipt of the contributions pledged for the latter. UNU-INWEH explained that while it strove to avoid such a situation, it is concerned that suspensions or cancellations of programmed projects would hinder the attainment of UNU goals. While the approach has worked because programme-related and other expenditures were kept within budget, the Board is concerned that projects which were sufficiently funded might face the risks of their funds being drained because they were temporarily transferred to other projects.

15. Although efforts were already exerted to implement the recommendations pertaining to consultants and individual contractors, the following were still observed during the biennium:

(a) Delayed submission of outputs by consultants at the UNU Centre;

(b) At four research and training centres, the individual project summaries did not provide information on performance indicators, thus, accomplishments of consultants and individual contractors cannot be evaluated against targets;

(c) Incompleteness of the terms of reference at UNU-EHS with respect to: (i) objectives and targets; (ii) tangible and measurable outputs of the work assignments; (iii) realistic delivery dates and details as to how the work must be delivered (e.g., electronic submission, hard copy, etc.); and (iv) performance indicators for evaluation of results (e.g., timeliness, value of the services rendered in relation to their cost).

16. With respect to the implementation of a strategy so as to be less dependent on the Endowment Fund for sustainability, UNU is in the process of commissioning an independent asset allocation study, which will be coordinated by the Investment Management Service of the United Nations Joint Staff Pension Fund (UNJSPF).

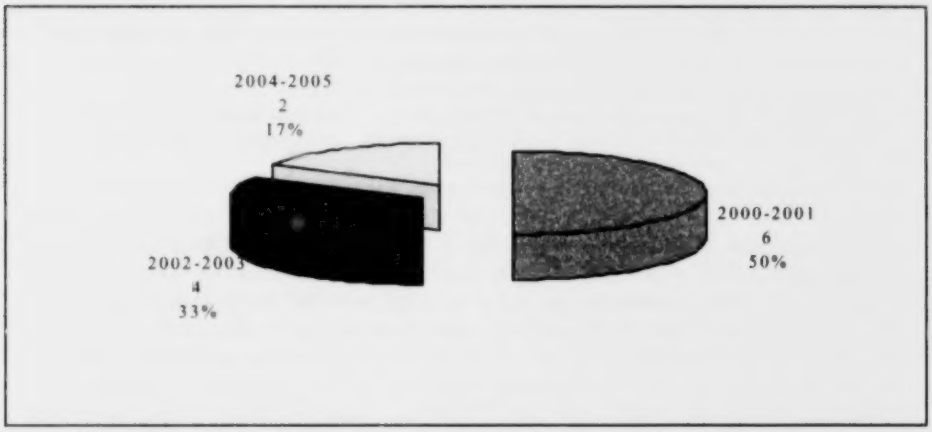
17. Four research and training centres did not comply with the requirement regarding the preparation of the procurement plan.

Ageing of previous recommendations

18. The Board also evaluated the ageing of the recommendations concerning the previous biennium that were partially or not yet implemented, as requested by the Advisory Committee on Administrative and Budgetary Questions (A/59/736, para. 8). The financial periods in which such recommendations were first made are indicated in the annex to the present chapter.

19. Of the 12 partially implemented recommendations, 17 per cent relate to the biennium 2004-2005; 33 per cent to 2002-2003; and 50 per cent to 2000-2001, as depicted in figure II.I.

Figure II.I
Ageing of partially implemented recommendations



2. Overall financial overview

Key financial ratios

20. The Board performed an analysis of the financial position of UNU as at 31 December 2007. The results of some key financial indicators are set out in table II.1.

Table II.1
Ratios of key financial indicators

	Biennium ended 31 December		
	2005	*2007*	*Component of 2007 ratio (millions of US dollars)*
Voluntary contributions receivable/total assets[a]	0.02	0.01	4.96/376.32
Cash (excluding cash pool)/total assets[b]	0.07	0.10	35.90/376.32
Cash (excluding cash pool)/total liabilities[c]	2.57	1.89	35.90/19.00
Cash (excluding cash pool)/total liabilities (excluding end-of-service liabilities)[d]		2.92	35.90/12.31
Interest income/total investments (including cash and term deposits as well as cash pools)[e]	0.11	0.15	53.27/365.79
Voluntary contributions/total income[f]	0.43	0.37	54.22/148.40

[a] A low indicator depicts a healthy financial position.
[b] A high indicator depicts a healthy financial position.
[c] A low indicator is a reflection that insufficient cash is available to settle debts.
[d] Indicates the sufficiency of cash to settle debts excluding end-of-service liabilities.
[e] Indicates the earnings capacity of investments.
[f] Reflects the extent of the efficiency of the fund-raising activities.

21. As shown in the above table, the UNU cash over total assets ratio as at 31 December 2007 was 0.10:1; it was 0.07:1 as at 31 December 2005. Although there was an improvement in the cash over total assets ratio, there was substantial decline in the cash over total liabilities ratio, from 2.57:1 in the previous biennium to 1.89:1 in the biennium under review. Had the end-of-service liabilities amounting to $6.69 million not been recognized in the 2006-2007 financial statements, total liabilities would have been only $12.31 million. Thus, the ratio of cash over total liabilities would have been 2.92:1, instead of 1.89:1.

22. The ratio of voluntary contributions to total income has decreased from 0.43:1 in the previous biennium to 0.37:1 in the biennium 2006-2007 while the ratio of interest income to total investments (including cash pool) has increased from 0.11:1 to 0.15:1

3. Financial statement balances

23. The objective of financial statements is to provide information about the financial position and performance of the organization, changes in its financial position and compliance with legislative and other authorities (para. 7, United Nations system accounting standards).

24. The Financial, Budgetary and Personnel Management System (FBPMS) was developed for UNU to cater to the information management needs of the UNU Centre as well as its various research and training centres established at several locations around the world. The present version of FBPMS specifically covers the budgetary and financial functions performed by UNU. It contains a report module which allows users to generate various reports, including budget reports, general ledger reports, and financial statements for each of the operating, endowment and trust funds. However, it is incapable of generating consolidated financial statements.

25. The Board noted that the consolidated financial statements which were submitted to the Accounts Division of the United Nations Secretariat were prepared outside FBPMS. The adjustments, reclassifications, or regroupings thereon were done manually by the UNU Finance Services Office on a spreadsheet.

26. To determine the agreement of the FBPMS balances against those in the final financial statements, the Board reviewed the account balances of the UNU Centre and the research and training centres and verified the consistency of their groupings in the FBPMS-generated financial statements, which was manually consolidated, against the final financial statements, which were prepared outside FBPMS.

27. Verification of the discrepancies showed transfers of balances from one FBPMS account grouping to another. Further analysis showed that adjustments, reclassifications or regrouping of accounts were done outside the system by the Finance Services Office to eliminate the following accounts: (a) inter-fund balances receivable; (b) inter-office transactions pending processing; and (c) inter-fund balances payable. These adjustments were neither reviewed nor approved by the Director of Administration. The net effect of these eliminations were presented in the financial statements under other accounts receivable and other accounts payable, amounting to $5.27 million and $3.59 million, respectively.

28. UNU explained that it ensured complete audit trail between data downloaded from FBPMS and in producing ultimate financial reports and that the balances are regrouped into appropriate categories in the statement of income and expenditures and in the statement of assets and liabilities in accordance with the financial closing instructions and United Nations system accounting standards. Further, it explained that all the reclassifications within classes of assets and liabilities have been fully tracked and documented in writing.

29. The only documentation in writing that was presented to the Board consisted of a worksheet, showing how the accounts were adjusted/reclassified but without any explanation as to the reasons for the adjustment/reclassification.

30. **The Board recommends that UNU: (a) document, through the manual journal vouchers, the adjustments and reclassifications made in the course of preparing the final financial statements; and (b) address the limitations of the Financial, Budgetary and Personnel Management System.**

31. UNU commented that Atlas has been identified as a successor system to the FBPMS. Atlas is an integrated global enterprise resource planning system managed by the United Nations Development Programme. The UNU Council has already approved the budget for the biennium 2008-2009 for Atlas and the migration to Atlas is targeted for 1 January 2009.

4. Statement of income and expenditure

32. For the period under review, total income was $148.40 million, compared with $89.02 million in the previous biennium, an increase of 66.7 per cent. Total income included transfers of cumulative surplus to income of $7 million. Total expenditure amounted to $79.43 million, compared with $81.32 million for the previous biennium, a decrease of $1.89 million, or 2 per cent. This resulted in an excess of income over expenditure of $68.97 million, compared with an excess of $7.69 million in the preceding biennium, an increase of $61.28 million in the biennium under review.

33. Comparative income and expenditures for the financial periods 2004-2005 and 2006-2007 are shown in figure II.II.

Figure II.II
Comparative income and expenditures
(in thousands of United States dollars)

34. Paragraph 32 of the United Nations system accounting standards provides that income for a financial period is the money or money equivalent received or accrued during the financial period which increases existing net assets.

35. The Board's examination of the statement of income and expenditures for the biennium ended 31 December 2007 showed that the income accounts of the operating and trust funds included the amounts of $5.97 million and $1.03 million, respectively, representing transfers of $7 million from cumulative surplus, which is a component of reserves and fund balances.

36. UNU explained that the presentation was due to the use of the cumulative surplus in funding the operating budget. However, since the surplus pertained to income earned in prior years, those transfers to income might not be in accordance with paragraph 32 of the United Nations system accounting standards and distort the results of operations.

37. UNU has restated its comparative figures for the biennium 2004-2005. This restatement also involved a transfer of $15.64 million from cumulative surplus to income. As a result, the previously reported deficit of $7.95 million in the biennium 2004-2005 was reported as a surplus of $7.69 million in the biennium 2006-2007 comparative financial statements.

38. **The Board recommends that UNU discontinue the practice of transferring cumulative surplus to income in the financial statements.**

5. Statement of assets, liabilities, and reserves and fund balances

39. Total assets increased from $307.83 million as at 31 December 2005 to $376.32 million as at 31 December 2007, a 22.25 per cent increase. Total liabilities also increased during the biennium under review from $8.29 million to $19 million, or an increase of 129 per cent. That was due mainly to the recognition of end-of-service liabilities of $6.69 million on the face of the financial statements. Total

reserves and fund balances likewise increased from $299.54 million to $357.31 million, a 19.29 per cent increase.

Cash pool presentation

40. UNU has five general ledger cash-in-bank accounts, two of which are specifically identified with the cash pool accounts. These are the interest-bearing bank deposits (account code 061) and savings deposits (account code 060), which had balances totalling $10.93 million as at 31 December 2007 according to FBPMS. The financial statements, however, showed a cash pool balance of only $8.76 million, or a difference of $2.17 million as shown in table II.2.

Table II.2
Cash pool account in accordance with FBPMS and financial statements
(in United States dollars)

	Balances as at 31 December 2007		
General ledger accounts	*FBPMS*	*Final financial statements*	*Difference*
060			
UNU-Centre	176 294	176 294	—
UNU-INRA	11 951	0	11 951
UNU-INWEH	2 158 030	0	2 158 030
Subtotal	**2 346 275**	**176 294**	**2 169 981**
061			
UNU-Centre	4 605 462	4 605 462	—
UNU-WIDER	819 277	819 277	—
UNU-MERIT	3 142 847	3 142 847	—
UNU-IIST	10 806	10 806	—
UNU-INRA	4 312	4 312	—
Subtotal	**8 582 704**	**8 582 704**	—
Total	**10 928 979**	**8 758 998**	**2 169 981**

41. The difference of $2.17 million was accounted for as the cash pool (account code 060) balances of UNU-INRA and UNU-INWEH of $11,951 and $2.16 million, respectively. While these balances were part of the cash pool account, they were not presented as part of the cash pool in the statement of assets, liabilities and reserves and fund balances. Further analysis of the cash pool accounts (account codes 060 and 061) and the call account (account code 064) showed that cash transactions were interchangeably recorded in these accounts. The cash pool accounts, which were supposed to be the repository of excess cash, also contained inter-fund settlements, refunds of unspent daily subsistence allowance, and receipt of contributions. Those transactions properly pertain to the call account.

42. **UNU agreed with the Board's recommendation to specify the types of transactions that will be reflected in the cash pool accounts to distinguish these transactions from those pertaining to other bank accounts.**

43. Review of the journal vouchers accruing the interest income in the cash pool under account code 061 showed that the income for each month was properly recorded in the same month. It was, however, observed that instead of recording the receivable account, cash was recorded even if the amount had yet to be credited to the cash pool account.

44. As shown in the cash pool statement, interest income was credited every January and July of each year. That means that UNU receives the cash representing interest income only every six months and not every month.

45. The practice of recording cash even if it was not yet received overstated the cash pool (account code 061) prior to January and July of each year. Thus, as at 31 December 2007, cash was overstated by the interest income pertaining to the six-month period July to December 2007, which in this case was $100,257, as that amount was credited by the bank only in January 2008.

46. **The Board recommends that UNU record the receipt of cash only when the interest earned is credited to its cash pool account.**

Premiums and discounts/gains and losses on bonds

47. Paragraph 24 of the United Nations system accounting standards, Revision VIII, states that the amounts and classifications of items should be supplemented by any additional information required to make their meanings clear. Significant items should not be included with, or offset against, other items, without separate identification.

48. In the Board's review of bond transactions, it was noted that the treatment of premiums and discounts, and gains and losses were not in accordance with the United Nations system accounting standards and that only net amounts were recorded in the accounts.

49. **The Board recommends that UNU record its premiums, discounts, gains and losses on investments on a per-transaction basis in accordance with the United Nations system accounting standards.**

Tracking facility for investment transactions

50. Review of the process by which securities were recorded in the books through the investment journal vouchers, and verification of the documents supporting these vouchers and the monthly investment reports of the investment manager showed that there was no system in place to track the movement of the securities from purchase to sale.

51. The Board analysed the sale of bond investments during the biennium in four currencies amounting to $60.71 million. It noted that the multi-currency transaction report on sale transactions submitted to UNU did not include the dates of purchase and such other details that would facilitate determining which of the investments were sold. Those data are useful when only a portion of a specific investment is sold and there is a need to close the corresponding premium or discount, to recognize the accrued interest income as at the date of sale, and to record the correct gain or loss on sale.

52. As it is now, UNU completely relies on the reports submitted by the investment manager in recording its investment transactions due to the absence of a facility to countercheck the accuracy of the figures provided by the latter.

53. **The Board recommends that UNU suggest enhancements to the new Atlas system in order to improve the management and recording of the investment accounts.**

Adjustment of accrued interest income on bonds purchased

54. In 10 instances, the Board noted that accrued interest receivable of $369,966, which formed part of the purchase price of the bonds, were not closed when they were sold before the interest payment date or upon receipt of the interest coupons. Further review showed that it was only at the end of the biennium that the receivable was closed, notwithstanding the sale of the bonds before the end of the biennium. The delayed closure, which ranged from 5 to 11 months, could misstate the gain or loss from sale of the bond investments.

55. **UNU agreed with the Board's recommendation to close the accrued interest receivable which was included in the purchase price of a bond, when interest is received at interest payment date or when a bond is sold.**

6. End-of-service liabilities including after-service health insurance

56. In accordance with General Assembly resolution 61/264, UNU changed the presentation of end-of-service liabilities in the biennium 2006-2007 from disclosure in the notes to the financial statements to accounting and presentation on the face of the financial statements.

57. The financial statements for the period under review reflected end-of-service liabilities amounting to $6.69 million. Of that amount, $3.94 million represented after-service health insurance; $1.28 million, unused vacation leave credits; and $1.47 million, repatriation benefits.

58. The determination of the UNU liability for after-service health insurance was based on the actuarial valuation undertaken by a consulting actuary. The after-service health insurance liability as at 31 December 2007 was evaluated by verifying personnel information in accordance with the consultant's report against the UNU listing of personnel and their number of years in service. On the other hand, the monetary value of the unused vacation leave credits was computed by dividing the staff member's net monthly pay by 21.75 days and multiplying the result with the annual leave balance. Repatriation grants were calculated using the number of years completed outside the country of nationality. The Board validated end-of-service liabilities through reliance on the actuarial valuation done by the consulting actuary and the Board's own procedures. The Board, however, is concerned that the appropriate funding for end-of-service liabilities has not yet been provided.

59. **The Board recommends that UNU provide the appropriate funding for the settlement of end-of-service liabilities.**

7. Financial statement disclosures

Voluntary contributions in kind

60. Paragraph 35 of the UNSAS provides that "Significant voluntary contributions in kind, which can be used in the normal course of an organization's programme activity, and provided that a fair value can be reasonably estimated, should be reported in the organization's financial statements. An organization may choose to recognize these contributions on the face of the statements or disclose them as a note. Such contributions should be valued at a fair value, including donor's valuation if appropriate, as best determined by the organization and the basis for such valuation should be disclosed."

61. Moreover, the Director, Accounts Division, Office of Programme Planning, Budget and Accounts, in a memorandum dated 17 November 2006, set forth reporting requirements to ensure that such voluntary contributions in kind are fully and accurately reported in the financial statements. He specified that contributions in the form of services or materials should be reported when the donation can be used in the normal course of programme activities. Annex II of the memorandum contained guidelines on valuation, which provide that use of equipment, land or buildings free of charge is considered as service contribution in kind. The value of the contribution is based on the fair rental value of what is being donated in the same locality.

62. The Board observed that at the UNU Centre and in five of its research and training centres, contributions in kind were neither disclosed in the notes to nor on the face of the financial statements, as detailed in table II.3.

Table II.3
Schedule of undisclosed voluntary contributions in kind

	Particulars	*Donor*	*Amount (United States dollars)*
UNU Centre	Land, building, and facilities	Government of Japan	Not determined
	Equipment		
UNU-INWEH	Office accommodation, furniture and equipment	Canadian International Development Agency	Not determined
	Full access to Internet services		
	Provision of support for computer hardware and software		
	Use of McMaster University software licences		
	Use of online financial management system		
UNU-MERIT	Land, building and heating system	Kingdom of the Netherlands and the Gementee Maastricht (local city council)	Not determined

	Particulars	*Donor*	*Amount (United States dollars)*
UNU-EHS	Library and conference room furniture	German Environment Ministry	Not determined
	Three network switches		17 200.20
	52 telephones		32 663.32
UNU-WIDER	Building rental for office use	Government of Finland	324 383
	Building rental for the Director's residence		60 519
UNU-IIGH	Land and building 8,772 square feet, excluding parking space area	Government of Malaysia	Not determined

63. **The Board recommends that UNU disclose all voluntary contributions in kind in the notes to the financial statements.**

8. Programme and project management

Results-based budgeting

64. The report of the Secretary-General at the fifty-third session of the General Assembly (A/53/500), proposed the form for the implementation of results-based budgeting. In the addendum to the report (A/53/500/Add.1), it was indicated that the budget will include the statement of objectives, the statement of expected results, and the performance indicators.

65. In its resolution 55/231, the General Assembly resolved to adopt the proposal made by the Secretary-General under A/54/456 and Add.1-5, to include the results-based budgeting concepts in its programmes. They include (a) the objectives for the biennium; (b) the expected accomplishments; (c) the outputs; (d) the identification of external factors; and (e) the identification of end-users/beneficiaries of outputs.

66. It was noted that the UNU-INWEH, UNU-MERIT, UNU-IIST and UNU-WIDER approved programme budgets for the biennium 2006-2007 were not compliant with the above requirements. While management commented that its work and budget plan for the biennium 2006-2007 complied with the requirements of A/53/500/Add.1, there were still indications of non-compliance as discussed in the subsequent paragraphs.

67. At UNU-INWEH, the subprogramme objectives were expressed in general terms and lacked focus on the specific extent of accomplishment within the programme budget for the biennium. At the subprogramme level, there was no clear indication of the specific desired outcome involving benefits to the end-users and there were no performance indicators up to the project level.

68. At UNU-MERIT, the financial budget was presented by broad categories of expenditure, which were broken down into specific objects of expenditures for each project based on the supporting list of projects proposed for the biennium. Except for the project objectives, the individual project summaries did not include the

components of a logical framework (objectives, expected results, outputs and performance indicators) provided in the results-based budgeting.

69. At four research and training centres (UNU-INWEH, UNU-MERIT, UNU-IIST and UNU-WIDER), the individual project summaries did not provide information on performance indicators, external factors and the end-users/beneficiaries of outputs in order to allow project accomplishments to be monitored and evaluated against targets, the extent of fund utilization and the budget.

70. At the UNU-Centre, of the 70 subprogrammes presented in the approved academic programme budget for 2006-2007, 14 subprogrammes have not quantified their expected outputs, such as number of participants, workshops to be undertaken; and books, manuscripts, policy briefs to be published.

71. The Board likewise examined the UNU Centre project proposal files and noted that they did not specify the expected quantifiable output and results, although the UNU Guidelines for the Preparation of Project Proposals provide that the proposal shall state the specific objectives of the project to include, among others, a description of anticipated outputs in terms of actual products, such as report, academic publication, people trained, etc. The Board observed that 12 out of 13 project proposals under the environment and sustainable development programme and 6 out of 17 peace and governance programme proposals did not specify the quantifiable outputs.

72. The inclusion of quantifiable outputs at the onset, when project proposals and workplans were formulated, could have facilitated the identification of the specific activities intended to be undertaken and the expected specific measurable outputs resulting from such activities.

73. Review of the projects files at UNU-ILI (eight files) and at UNU-INWEH (seven files) revealed that they did not contain two or more of the basic documents considered vital for project monitoring, such as detailed work and financial plans, timetables, progress/evaluation reports, nor measurable indicators of performance. UNU-ILI explained that that was due to the premature departure of three of its programme officers.

74. The Board is concerned that the lack of documentation and monitoring would provide no assurance that the project implementation was in accordance with objectives and targets, that expenditures were kept within the approved budgets, and that outputs were delivered within the timetables and were commensurate with the amount of funds utilized.

75. **UNU agreed with the Board's recommendation: (a) to tailor its programme planning, budgeting, monitoring and evaluation in accordance with the results-based budgeting concepts; and (b) to maintain a complete and updated central file for all projects pursuant to the guidelines issued by the Central Monitoring and Inspection Unit.**

76. UNU commented that UNU-INWEH has developed a manual on results-based budgeting, with the inputs from an expert consultant, and promoted its use in the preparation of the academic programme and budget. In addition, the expected minimum outputs for UNU-WIDER, UNU-IIST and UNU-MERIT were quantified in the programme and budgets for the 2008-2009 biennium. UNU further

commented that the results-based budgeting concept will be further pursued as part of Atlas implementation.

Submission of outputs

77. At the UNU Centre, 62 project manuscripts had not yet been submitted as at audit date by the different consultants contracted to review the manuscripts. The delays were attributed to problems in coordinating the activities of consultants and researchers involved in the projects. Details are shown in table II.4.

Table II.4
Delays in the submission of project manuscripts

Year started	*Prescribed submission year*	*Number of years delayed*	*Number of manuscripts*	*Per cent of total*
2004	2005	2	2	3
2004	2004	3	1	2
2003	2004	3	24	39
2002	2003	4	1	2
2002	2002	5	2	3
2001	2003	4	17	27
2001	2002	5	15	24
Total			**62**	**100**

78. **The Board recommends that UNU require programme officers/researchers to periodically assess the performance and extent of implementation of workplans to ensure the prompt submission of outputs for publication.**

79. UNU commented that it was regularly monitoring the progress of the projects and noted that several projects had been delayed. The project managers were advised of that condition from time to time. It further commented that while a number of contractors/authors submit their papers in accordance with the time schedule as specified in the contract, some did not, despite repeated reminders from the project managers. If one contractor (author) delays submission of his/her paper, the project manager cannot complete the entire manuscript and thus, cannot submit it for external peer review. Since the condition of final payment for each contractor (author) is after peer review completion and the contractors' replies to the copy editors' queries, delayed submission by one author will affect the entire project.

Non-allocation of salaries of researchers to projects served

80. Project costing provides a completely integrated cost management system with the ability to provide means of collecting and collating costs for projects which run for one year or more. This enables the organization to continuously monitor and make comparisons between the actual accomplishments and the planned costs.

81. The UNU Council requires the research and training centres to report on the status of implementation of activities that includes, among others, information on the substantive accomplishments as well as budgetary provisions and total

expenditures of each project. The UNU Council also requires the inclusion of the salaries of researchers in determining the project's total cost.

82. At UNU-MERIT, the Board reviewed the financial management system of project implementation, from receipt of the contribution up to the generation of the project financial report. The Board noted that each researcher can handle several projects at one time or can work part-time on a particular project. However, their salaries (considered as joint costs) were not matched against each project, in terms of man-days, man-weeks or man-months, because there was no policy on how to allocate the work rendered. In addition, project codes were not assigned to the said salaries because of the problem on allocation. Hence, amounts were encoded manually to the FBPMS by the Finance Assistant in coordination with the researchers.

83. As a result, FBPMS could not automatically generate the total project cost, which should have included the reasonable allocation of the cost of salaries of researchers.

84. **UNU agreed with the Board's recommendation to formulate a policy on the reasonable allocation of the salaries of researchers in project costing.**

85. UNU commented that with the migration of the current financial system to the Atlas system, it is expected that the salary allocation in the costing of projects would be facilitated.

Utilization of allotments

86. The UNU-IIST subprogramme, Open Computing Initiative, had an approved budget of $2.29 million for the biennium 2006-2007. This subprogramme seeks to improve both the use of open source software for non-technical users and to increase the number of open source developers in developing economies. Its implementation started on 1 January 2006 and is expected to end on 31 December 2009.

87. This UNU-IIST project seeks to assist developing countries to shift from being consumers of imported open source technologies to becoming creators of such technologies. This project has generated a huge amount of interest, which is expected to help a developing nation's human infrastructure and accessibility to information technology.

88. For the year 2006, the project was initially funded by UNU-IIST with an approved allotment of $125,000, while external funding was being sought. This amount was utilized in employing a project manager for one year with the agreement that he had to raise outside funds to extend the project beyond that year.

89. In 2006, the project received total pledges of $2.7 million from three donors, which were covered by three separate memorandums of understanding. In support of the implementation of the project, 16 other partners, represented mainly by universities and computer schools, had signed the memorandums of understanding to join and participate in the technical training that UNU-IIST will conduct.

90. UNU-IIST was, however, forced to stop the implementation of the project owing to the termination of one partnership agreement, coupled with the budgetary constraints it was experiencing. Review of project expenditures incurred from 1 January 2006 to 31 March 2007 showed that of the $125,000 allotment, it incurred

a total expenditure of $202,411, resulting in an overexpenditure of $77,411, or 62 per cent in excess of the allotment.

91. At UNU-MERIT, the practice of most donors is to advance a certain percentage of the project cost and after using a portion of the advanced amount, UNU-MERIT requests reimbursements from them, which is timed with the periodic submission of the report to donors.

92. The Board reviewed the periodic list of ongoing and completed projects as at 30 June 2007, and noted that seven projects in the total amount of $49,408 reported negative fund balances. This indicated that actual expenditures exceeded the amount advanced. The list of projects with expenditures that exceeded the amount advanced from donors as at 30 June 2007 is shown in table II.5.

Table II.5
UNU-MERIT projects with expenditures exceeding donors' advances

Project No.	*Duration*	*Advances from donors*	*Actual expenditures*	*Difference*
2002-31-091-00	Jun 2002–Mar 2007	$6 096	$6 305	($209)
2002-31-211-00	Jun 2003–Dec 2007	30 883	36 948	(6 065)
2004-31-168-00	Oct 2004–Dec 2006	14 214	19 854	(5 640)
2004-31-170-00	Jun 2005–Mar 2007	16 013	23 104	(7 091)
2004-31-186-00	May 2005–Jul 2008	8 759	9 215	(456)
2006-31-035-00	Dec 2006–Mar 2008	86 960	93 506	(6 546)
2006-31-035-00	Jan 2006–Dec 2008	38 819	62 220	(23 401)
Total				**($49 408)**

93. The audit in biennium 2000-2001 reported an unrecovered reimbursement from donors. In the current scheme adopted by UNU-MERIT, there is the risk of incurring losses again in case requests for reimbursements are declined.

94. At UNU-ILI, review of actual programme expenditures against the budget as at 30 September 2007 showed that the capacity development programme had nine projects, two of which were the environment and sustainable development project; and the leadership, media and democracy project. Both projects incurred total expenditures of $197,897, which was 80 per cent above the budget of $110,000. The Board noted that the negative variance of $87,897, between the approved budget and the actual expenditures, pertained to various expenditures not related to said projects.

95. UNU-ILI explained that other project expenditures had been erroneously charged to these two projects, hence, it assured to correct the error. The Board is concerned that the incurrence of expenditures in excess of the budget due to erroneous charges may affect the effective implementation of projects.

96. **The Board recommends that UNU ensure that the research and training centres:**

(a) **Generate more voluntary contributions from donors to guarantee the continuous implementation of projects;**

(b) **Closely monitor project expenditures to avoid the incurrence of project deficits.**

97. UNU-MERIT commented that expenditures exceeded advances from donors because of the timing of the request for replenishment and the receipt of funds. The Chief, Administrative and Programme Services is closely monitoring the project expenditures.

98. UNU-ILI agreed to closely monitor fund utilization through the maintenance of a project control sheet.

9. Procurement and contract management

Procurement plan

99. Section 8.1 of the United Nations Procurement Manual states that procurement planning is essential for the effective and timely solicitation of bids or proposals, award of contracts and delivery of the goods and services required. Requisitioners are responsible for the development of procurement plans, and for cooperation with the United Nations Procurement Division or Chief Procurement Office in making these plans available in a timely manner.

100. Four research and training centres (UNU-EHS, UNU-ILI, UNU-IAS and UNU-IIST) did not have a procurement plan for the biennium under review. Acquisitions were made on a needs basis, giving little opportunity to scout the market for potentially more economical sources and to maximize the benefit of the discounts that would result from bulk purchases. Rushed procurement actions may result in insufficiently prepared requirements and limited competition and failure to ensure a transparent, open, efficient and timely procurement process.

101. **The Board recommends that UNU prepare a procurement plan pursuant to section 8.1 of the United Nations Procurement Manual.**

Maintenance of a vendor database/vendor's acceptance of purchase orders

102. The Board observed that a database for registered vendors was not maintained by UNU-ILI, UNU-IAS and UNU-IIST as required under section 7.1 of the Procurement Manual. At UNU-IAS and UNU-IIST, there were purchase orders which were not signed by the vendors. Section 11.11(3) of the Procurement Manual provides that acceptance of the purchase order shall conclude a contract between the parties. In order to protect the interest of the organization, the Procurement Officer shall obtain proof that the purchase order has been received by the vendor, either by copy of fax transmittal receipt, proof of postal delivery to the vendor or preferably, vendor acknowledgement of the purchase order through a countersigned copy of the order. The lack of confirmatory signature of the vendor and the date of acknowledgement hinders the determination as to whether the vendor has completed the delivery within the agreed time frame; and the imposition of penalties for late deliveries.

103. At the UNU-Centre, the Board noted cases where purchase orders did not specify the delivery dates. Hence, the contracts became open-ended. The disclosure of payment terms in the contracts is also significant, particularly when suppliers offer discounts for prompt payment.

104. **The Board recommends that UNU (a) adhere to section 7.1 of the United Nations Procurement Manual providing for the maintenance of a vendor database; (b) indicate in the contracts the delivery dates and the terms of payment; and (c) obtain the signatures of vendors in all contracts to ensure that they conform to the terms and conditions stated therein.**

105. UNU states that the research and training centres will work with the procurement unit at UNU headquarters on the implementation of annual procurement plans, the maintenance of a vendor database and the acceptance of purchase orders by vendors.

10. Progress towards the implementation of IPSAS

106. UNU does not have its own IPSAS adoption plan which would serve as its guide in monitoring the progress of IPSAS implementation.

107. **The Board recommends that UNU develop a plan detailing the various steps to be taken leading to the full implementation of IPSAS by 2010.**

108. UNU states that it has joined the partnership of the United Nations Development Programme (UNDP) and other United Nations agencies in the implementation of Atlas, an integrated global system which will replace FBPMS effective 1 January 2009. UNU expects Atlas to provide it with the capacity to manage, in a global setting, its academic activities and resources more effectively and efficiently. With the upgrading of Atlas to the 9.0 version, changes in conjunction with the phased IPSAS adoption, where possible, will be incorporated. UNU added that it has adopted the UNDP timeline for IPSAS implementation. The Board is of the view that the pace and extent of preparations needed to be accelerated.

11. Internal audit function

109. Only two research and training centres (UNU-WIDER and UNU-MERIT) were audited by the Office of Internal Oversight Services in 2006. No internal audit work was done at the other research and training centres or at the UNU Centre during the biennium 2006-2007.

110. **The Board recommends that UNU request the Office of Internal Oversight Services to include in its plan for the biennium 2008-2009 the audit of the UNU Centre and selected research and training centres, in accordance with a risk-based approach.**

12. Internal audit findings

111. The main objective of the Office of Internal Oversight Services audit conducted in October and December 2006 at UNU-WIDER and UNU-MERIT was to evaluate the adequacy of programme and project management at research and training centres. Some of the significant observations were as follows:

(a) The legal, contractual and accountability arrangements were currently not in place to integrate projects of MERIT (the Foundation) and the Economic and Business Faculty of the Universitiet Maastricht, with those of UNU-MERIT, despite a 2005 cooperation agreement for the integration.

(b) The UNU strategies were properly developed and documented but there was always the risk of duplicating efforts if these strategies were not sufficiently coordinated and results were not assessed.

(c) The dual funding of project staff costs out of core funds and specific programme contributions substantially understated the total cost of a programme and its underlying projects.

13. Write-offs and disposals

112. UNU informed the Board that in accordance with financial rules 106.8 and 106.9 of the Financial Regulations and Rules of the United Nations, receivables and property losses amounting to $52,751.06 and $2,243, respectively, had been written off during the biennium 2006-2007.

14. Ex gratia payments

113. In a letter dated 15 April 2008, UNU informed the Board that there were no ex gratia payments during the biennium.

15. Cases of fraud and presumptive fraud

114. On 15 April 2008, UNU informed the Board that there were no cases of fraud and presumptive fraud which had come to its attention during the biennium under review.

C. Acknowledgement

115. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its staff by the Director of Administration, UNU-Centre and the different various research and training centres Directors and their staff.

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France
(Chairman, United Nations Board of Auditors)

(*Signed*) Reynaldo A. **Villar**
Chairman, Philippine Commission on Audit
(Lead Auditor)

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa

30 June 2008

Annex

Status of implementation of the Board's recommendations for the biennium ended 31 December 2005

Summary of recommendations	*Paragraph reference in report*	*Financial period in which recommendation first made*	*Fully implemented*	*Partially implemented*
Implement a strategy to minimize dependence on the Endowment Fund for sustainability	Para. 21	2004-2005		X
Observe consistently the accrual basis of accounting for miscellaneous income, pursuant to paragraph 37 of the United Nations system accounting standards	Para. 28	2002-2003	X	
Enforce the prompt settlement of travel claims to ensure validity and accuracy of unliquidated obligations	Para. 31	2002-2003	X	
Cancel the obligations for travel that did not materialize			X	
Ascertain that expenditures are properly obligated during the financial period to which they pertain			X	
Record expenditures in the appropriate financial periods to ensure that expenditures classified as deferred charges pertain only to future financial periods	Para. 35	2002-2003	X	
Consider enhancing the FBPMS to make it consistent with the financial recording and reporting requirements	Para. 38	2000-2001		X
Enforce control and safeguarding measures of non-expendable property, in accordance with administrative instruction ST/AI/2003/5	Para. 40	2002-2003	X	
Continue to use the computerized property and inventory control system to maintain and update property records	Para. 42	2002-2003	X	
Request a statement of clarification from the host Government as to the nature of its $1 million contribution	Para. 46	2004-2005	X	
Strictly utilize funds for the projects for which they are intended and arrange for the timely release of programmed funds	Para. 51	2002-2003		X
Maintain complete and organized project documentation from planning to monitoring and evaluation	Para. 57	2002-2003		X
Identify measurable/quantifiable performance indicators to improve the performance measurement process	Para. 65	2002-2003		X
Reprogramme FBPMS to apportion automatically the salaries of those involved in projects to expenses for research and training networks, and dissemination	Para. 68	2000-2001		X

Summary of recommendations	*Paragraph reference in report*	*Financial period in which recommendation first made*	*Fully implemented*	*Partially implemented*
Require the programme managers of the concerned research training centres and programmes:	Para. 72	2000-2001		
(a) To submit periodically and regularly progress reports on ongoing projects as the basis for linking physical accomplishments with financial expenditures;				X
(b) To reassess the project situation and address possible causes of project slippages and/or deviations;				X
(c) To state the project status to the extent that it relates to the project workplan or output to allow for a proper assessment of the project's accomplishments;				X
(d) To adopt measures to accomplish the project in accordance with the time frame and within the budget ceiling				X
Adhere strictly to the provisions of the United Nations Procurement Manual on the preparation of procurement plans and the minimum number of bidders	Para. 79	2004-2005		X
Adhere to the provisions of rule 105.19 (a) of the United Nations Financial Rules and Regulations on advance payments; and to administrative instruction ST/AI/1999/7, with regard to selection and hiring of consultants; and evaluation of their performance	Para. 81	2002-2003		X
Total number of recommendations			**8**	**12**
Percentage			**40**	**60**

Chapter III
Audit opinion

We have audited the accompanying financial statements of the United Nations University, comprising statements I to IV, schedule 2.1, and the supporting notes for the biennium ended 31 December 2007. These financial statements are the responsibility of the Secretary-General. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes the examination, on a test basis and as considered by the auditor to be necessary in the circumstances, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Secretary-General, as well as an evaluation of the overall presentation of the financial statements. We believe our audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the United Nations University as at 31 December 2007 and the results of its operations and its cash flows for the period then ended, in accordance with the United Nations system accounting standards.

Furthermore, in our opinion, the transactions of the United Nations University that have come to our notice, or that we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

Without qualifying our opinions referred to above, we draw attention to the transfers from the opening cumulative surplus to income totalling $7 million for the purpose of augmenting the budget for the biennium 2006-2007. UNU has also restated the comparative figures for the biennium 2004-2005 applying the same treatment to cumulative surplus of $15.64 million. Although they did not affect the reserves and fund balances at the end of the biennium, the Board is concerned that such transfers distort the results of operations.

In accordance with article VII of the Financial Regulations, we have also issued a long-form report on our audit of the financial statements of the United Nations University.

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France
(Chairman, United Nations Board of Auditors)

(*Signed*) Reynaldo A. **Villar**
Chairman, Philippine Commission on Audit
(Lead Auditor)

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa

30 June 2008

Chapter IV
Certification of the financial statements

28 March 2008

The financial statements of the United Nations University for the biennium 2006-2007 ended 31 December 2007 have been prepared in accordance with financial rule 106.10.

The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes provide additional information and clarification of the financial activities undertaken by the University during the period covered by these statements, for which the Secretary-General has administrative responsibility.

I certify that the appended financial statements of the United Nations University, numbered I to IV, are correct.

(*Signed*) Warren **Sach**
Assistant Secretary-General, Controller

Chapter V

Financial statements for the biennium 2006-2007 ended 31 December 2007

Statement I

United Nations University[a]
Statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2007

(Thousands of United States dollars)

	UNU Centre Operating Fund	*UNU Headquarters Building Operating Fund*[c]	*UNU-WIDER Operating Fund*	*UNU-MERIT Operating Fund*[d]	*UNU-IIST Operating Fund*	*UNU-INRA Operating Fund*	*UNU-BIOLAC Operating Fund*	*UNU-IAS Operating Fund*
Income								
Voluntary contributions	10 045	2 090	4 124	6 162	958	19	—	8 233
Interest income	860	—	336	127	38	13	—	—
Income for services rendered	—	2 877	—	—	—	—	—	—
Other/miscellaneous income:								
Sales income and royalties from publications	444	—	22	1	—	—	—	—
Miscellaneous income	504	—	362	286	3	—	—	26
Transfers from the Endowment Fund[j]	14 172	—	4 812	1 951	3 714	1 497	969	—
Transfers from cumulative surplus[k]	2 050	—	1 500	500	914	—	—	349
Total income	**28 075**	**4 967**	**11 156**	**9 027**	**5 627**	**1 529**	**969**	**8 608**
Expenditure								
Staff and other personnel costs	16 284	429	4 001	2 773	2 693	1 066	—	2 045
Travel	918	—	79	52	113	147	3	216
Contractual services	520	6	42	55	1	14	—	48
Operating expenses	1 282	4 212	369	452	296	90	—	1 080
Acquisitions	505	2	54	70	50	25	—	31
Research and training networks, and dissemination	9 630	1	3 451	2 181	2 169	29	956	4 793
Transfers to Operating Funds[j]	—	—	—	—	—	—	—	—
Total expenditure	**29 139**	**4 650**	**7 996**	**5 583**	**5 322**	**1 371**	**959**	**8 213**
Excess (shortfall) of income over expenditure	**(1 064)**	**317**	**3 160**	**3 444**	**305**	**158**	**10**	**395**
Non-budgeted accrued expenses for end-of-service and post-retirement benefits	—	—	—	—	—	—	—	—
Prior-period adjustments	(60)	—	—	—	—	950[m]	996[m]	—
Net excess (shortfall) of income over expenditure	**(1 124)**	**317**	**3 160**	**3 444**	**305**	**1 108**	**1 006**	**395**
Savings on, or cancellation of, prior-period obligations	1 497	—	162	—	197	71	8	323
Other adjustments to reserves and fund balances	—	—	—	—	—	—	(370)	—
Transfers from cumulative surplus[k]	(2 050)	—	(1 500)	(500)	(914)	—	—	(349)
Reserves and fund balances, beginning of period	8 471	—	2 217	1 098	1 287	(818)	(626)	1 275
Reserves and fund balances, end of period	**6 794**	**317**	**4 039**	**4 042**	**875**	**361**	**18**	**1 644**

United Nations University[a]
Statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2007

(Thousands of United States dollars)

	UNU-ILI Operating Fund	*UNU-INWEH Operating Fund*	*UNU-CRIS Operating Fund*	*UNU-EHS Operating Fund*	*UNU-HIGH Operating Fund*[g]	*UNU-JAF Operating Fund*	*UNU-ICDF Operating Fund*	*UNU-RCF Operating Fund*
Income								
Voluntary contributions	1 137	4 777	392	4 913	1 689	—	—	—
Interest income	—	187	—	—	—	—	—	—
Income for services rendered	—	—	—	—	—	—	—	—
Other/miscellaneous income:								
Sales income and royalties from publications	—	—	—	—	—	—	—	—
Miscellaneous income	—	579	3	444	—	—	—	—
Transfers from the Endowment Fund[j]	154	—	—	28	600	—	—	—
Transfers from cumulative surplus[k]	423	—	—	224	—	—	—	—
Total income	**1 714**	**5 543**	**395**	**5 609**	**2 289**	—	—	—
Expenditure								
Staff and other personnel costs	639	1 269	371	1 774	498	—	—	—
Travel	186	251	13	87	49	—	—	—
Contractual services	22	32	12	68	4	—	—	—
Operating expenses	262	128	—	414	22	—	—	—
Acquisitions	115	31	—	74	6	—	—	—
Research and training networks, and dissemination	530	3 271	—	2 675	1	19	33	—
Transfers to Operating Funds[j]	—	—	—	—	—	—	—	—
Total expenditure	**1 754**	**4 982**	**396**	**5 092**	**580**	**19**	**33**	—
Excess (shortfall) of income over expenditure	**(40)**	**561**	**(1)**	**517**	**1 709**	**(19)**	**(33)**	—
Non-budgeted accrued expenses for end-of-service and post-retirement benefits	—	—	—	—	—	—	—	—
Prior-period adjustments	—	—	(2)	—	—	—	—	—
Net excess (shortfall) of income over expenditure	**(40)**	**561**	**(3)**	**517**	**1 709**	**(19)**	**(33)**	—
Savings on, or cancellation of, prior-period obligations	—	140	3	46	—	—	—	—
Other adjustments to reserves and fund balances	(100)	—	—	—	—	—	—	—
Transfers from cumulative surplus[k]	(423)	—	—	(224)	—	—	—	—
Reserves and fund balances, beginning of period	423	89	28	213	—	1 946	973	2 500
Reserves and fund balances, end of period	**(140)**	**790**	**28**	**552**	**1 709**	**1 927**	**940**	**2 500**

Statement I (concluded)

United Nations University[a]
Statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2007

(Thousands of United States dollars)

	Operating Funds	*Endowment Fund*	*Trust Fund*	*End-of-service and post-retirement liabilities*[c]	*All funds elimination*	*Total 2007*	*Total 2005*[d]
Income							
Voluntary contributions	44 539	8 639	1 042	—	—	54 220[e]	37 990
Interest income	1 561	51 707[b]	—	—	—	53 268	31 718
Income for services rendered	2 877	—	—	—	—	2 877	2 843
Other/miscellaneous income:							
Sales income and royalties from publications	467	—	—	—	—	467	451
Miscellaneous income	2 207	28 332[f]	43	—	—	30 582	377
Transfers from the Endowment Fund[g]	27 897	—	—	—	(27 897)	—	—
Transfers from cumulative surplus[h]	5 960	—	1 029	—	—	6 989	15 636
Total income	**85 508**	**88 678**	**2 114**	**—**	**(27 897)**	**148 403**	**89 015**
Expenditure							
Staff and other personnel costs	33 842	—	880	—	—	34 722	35 008
Travel	2 114	—	63	—	—	2 177	2 017
Contractual services	824	—	192	—	—	1 016	1 378
Operating expenses	8 607	1 437	71	—	—	10 115	14 321
Acquisitions	963	—	2	—	—	965	775
Research and training networks, and dissemination	29 739	—	701	—	—	30 440	27 826
Transfers to Operating Funds[g]	—	27 897	—	—	(27 897)	—	—
Total expenditure	**76 089**	**29 334**	**1 909**	**—**	**(27 897)**	**79 435**	**81 325**
Excess (shortfall) of income over expenditure	**9 419**	**59 344**	**205**	**—**	**—**	**68 968**	**7 690**
Non-budgeted accrued expenses for end-of-service and post-retirement benefits[i]	—	—	—	(723)	—	(723)	—
Prior-period adjustments	1 884	(2 101)	—	—	—	(217)	—
Net excess (shortfall) of income over expenditure	**11 303**	**57 243**	**205**	**(723)**	**—**	**68 028**	**7 690**
Savings on, or cancellation of, prior-period obligations	2 447	—	254	—	—	2 701	2 554
Other adjustments to reserves and fund balances	(470)[j]	470	—	(5 970)[j]	—	(5 970)	—
Transfers from cumulative surplus[h]	(5 960)	—	(1 029)	—	—	(6 989)	(15 636)
Reserves and fund balances, beginning of period	19 076	278 931	1 535	—	—	299 542	304 934
Reserves and fund balances, end of period	**26 396**	**336 644**	**965**	**(6 693)**	**—**	**357 312**	**299 542**

[a] See notes 2, 3 and 4.

[b] The UNU headquarters building operating fund was previously accounted for in the UNU Centre Operating Fund. In order to improve the presentation, effective 1 January 2006, this fund is shown separately.

[c] UNU-MERIT was created on 1 January 2006 integrating the former UNU-INTECH and the Maastricht Economic Research Institute on Innovation and Technology (MERIT), Maastricht.

[d] The UNU-IIGH Operating Fund in Kuala Lumpur, Malaysia, which contributes to the resolution of global health issues, particularly in relation to the needs of developing countries, was established effective 1 January 2006. The operations of UNU-IIGH are funded by voluntary contributions from the Government of Malaysia.

[e] See note 5.

[f] Comparative figures have been restated to conform to the current presentation

[g] Represents voluntary contributions from Governments of $43,495,000 and other voluntary contributions in the amount of $10,725,000.

[h] Represents interest income of $19,904,064 and net gain on sale of securities of $31,802,539.

[i] Represents net gain on foreign exchange revaluation of $28,332,250.

[j] Represents transfers from the Endowment Fund to respective operating funds.

[k] Represents transfers from cumulative surplus for funding of 2006-2007 requirements as authorized by the Governing Council.

[l] Represents net increase in end-of-service and post-retirement benefits during the biennium 2006-2007.

[m] Represents adjustments to transfers from the Endowment Fund in 2005.

[n] Represents reinvestment of cumulative surplus of $100,000 and $370,000 into the Endowment Fund of UNU-ILI and UNU-BIOLAC, respectively.

[o] Represents accrued liabilities for after-service health insurance costs of $3,626,000, for unused vacation days of $1,353,337 and for repatriation benefits of $991,102 as of 31 December 2005. These were previously disclosed in the notes and are now reflected in the financial statements as liabilities. See note 5.

The accompanying notes are an integral part of the financial statements.

Statement II

United Nations University[a]
Statement of assets, liabilities, reserves and fund balances as at 31 December 2007

(Thousands of United States dollars)

	UNU Centre Operating Fund	*UNU Headquarters Building Operating Fund*[b]	*UNU-WIDER Operating Fund*	*UNU-MERIT Operating Fund*[c]	*UNU-IIST Operating Fund*	*UNU-INRA Operating Fund*	*UNU-BIOLAC Operating Fund*	*UNU-IAS Operating Fund*
Assets								
Cash and term deposits	9 439	—	3 906	1 006	1 369	12	—	—
Short-term investments	—	—	—	—	—	—	—	—
Long-term investments	—	—	—	—	—	—	—	—
Offices away from Headquarters cash pools	4 782	—	819	3 143	11	4	—	—
Voluntary contributions receivable	—	—	—	—	—	—	—	—
Inter-fund balances receivable	692	—	26	12	—	1 303	1 055	—
Other accounts receivable	640	46	43	273	116	23	—	151
Inter-office transactions pending processing	644	951	—	171	91	—	—	2 257
Deferred charges and other assets	140	—	15	23	34	—	—	71
Total assets	**16 337**	**997**	**4 809**	**4 628**	**1 621**	**1 342**	**1 055**	**2 479**
Liabilities								
Unliquidated obligations	3 055	343	744	353	670	88	133	730
Inter-fund balances payable	5 367	—	—	—	—	—	—	--
Other accounts payable	1 121	337	2	233	76	41	3	105
Inter-office transactions pending processing	—	—	24	—	—	852	901	—
End-of-service and post-retirement liabilities	—	—	—	—	—	—	—	—
Total liabilities	**9 543**	**680**	**770**	**586**	**746**	**981**	**1 037**	**835**
Reserves and fund balances								
Fund principal	—	—	—	—	—	—	—	—
Balances related to projects funded by donors	4 112	—	617	1 880	347	19	—	847
Cumulative surplus (deficit)	2 682	317	3 422	2 162	528	342	18	797
Total reserves and fund balances	**6 794**	**317**	**4 039**	**4 042**	**875**	**361**	**18**	**1 644**
Total liabilities, reserves and fund balances	**16 337**	**997**	**4 809**	**4 628**	**1 621**	**1 342**	**1 055**	**2 479**

United Nations University[a]
Statement of assets, liabilities, reserves and fund balances as at 31 December 2007

(Thousands of United States dollars)

	UNU-ILI Operating Fund	*UNU-INWEH Operating Fund*	*UNU-CRIS Operating Fund*	*UNU-EHS Operating Fund*	*UNU-HGH Operating Fund*[b]	*UNU-JAF Operating Fund*	*UNU-ICDF Operating Fund*	*UNU-RCF Operating Fund*
Assets								
Cash and term deposits	9	2 158	—	5 588	43	—	—	—
Short-term investments	—	—	—	—	—	—	—	—
Long-term investments	—	—	—	—	—	—	—	—
Offices away from Headquarters cash pools	—	—	—	—	—	—	—	—
Voluntary contributions receivable	250	—	206	—	—	—	—	—
Inter-fund balances receivable	45	—	—	—	32	1 927	940	2 500
Other accounts receivable	365	270	1	167	2	—	—	—
Inter-office transactions pending processing	—	—	—	—	1 793	—	—	—
Deferred charges and other assets	—	15	—	—	—	—	—	—
Total assets	**669**	**2 443**	**207**	**5 755**	**1 870**	**1 927**	**940**	**2 500**
Liabilities								
Unliquidated obligations	321	1 204	3	450	161	—	—	—
Inter-fund balances payable	—	—	—	—	—	—	—	—
Other accounts payable	4	327	—	1	—	—	—	—
Inter-office transactions pending processing	484	122	176	4 752	—	—	—	—
End-of-service and post-retirement liabilities	—	—	—	—	—	—	—	—
Total liabilities	**809**	**1 653**	**179**	**5 203**	**161**	—	—	—
Reserves and fund balances								
Fund principal	—	—	—	—	—	—	—	—
Balances related to projects funded by donors	—	—	—	308	—	—	—	—
Cumulative surplus (deficit)	(140)	790	28	244	1 709	1 927	940	2 500
Total reserves and fund balances	**(140)**	**790**	**28**	**552**	**1 709**	**1 927**	**940**	**2 500**
Total liabilities, reserves and fund balances	**669**	**2 443**	**207**	**5 755**	**1 870**	**1 927**	**940**	**2 500**

Statement II (concluded)

United Nations University[a]
Statement of assets, liabilities, reserves and fund balances as at 31 December 2007

(Thousands of United States dollars)

	Operating Funds	*Endowment Fund*	*Trust Fund*	*End-of-service and post-retirement liabilities*[c]	*All funds elimination*	*Total 2007*	*Total 2005*[f]
Assets							
Cash and term deposits	23 530	11 490	882	—	—	35 902	21 334
Short-term investments	—	8 785	—	—	—	8 785	6 564
Long-term investments	—	312 346[d]	—	—	—	312 346	256 523
Offices away from Headquarters cash pools	8 759[b]	—	—	—	—	8 759	13 376
Voluntary contributions receivable	456	4 500	—	—	—	4 956	5 250
Inter-fund balances receivable	8 532	4 651	—	—	(13 183)	—	—
Other accounts receivable	2 097	2 860	313	—	—	5 270	4 554
Inter-office transactions pending processing	5 907	—	1 404	—	(7 311)	—	—
Deferred charges and other assets	298	—	—	—	—	298	230
Total assets	**49 579**	**344 632**	**2 599**	—	**(20 494)**	**376 316**	**307 831**
Liabilities							
Unliquidated obligations	8 255	—	463	—	—	8 718	7 098
Inter-fund balances payable	5 367	7 816	—	—	(13 183)	—	—
Other accounts payable	2 250	172	1 171	—	—	3 593	1 191
Inter-office transactions pending processing	7 311	—	—	—	(7 311)	—	—
End-of-service and post-retirement liabilities[c]	—	—	—	6 693	—	6 693	—
Total liabilities	**23 183**	**7 988**	**1 634**	**6 693**	(20 494)	19 004	8 289
Reserves and fund balances							
Fund principal	—	237 770	—	—	—	237 770	229 131
Balances related to projects funded by donors	8 130	—	—	—	—	8 130	5 163
Cumulative surplus (deficit)	18 266	98 874	965	(6 693)	—	111 412	65 248
Total reserves and fund balances	**26 396**	**336 644**	**965**	**(6 693)**	—	**357 312**	**299 542**
Total liabilities, reserves and fund balances	**49 579**	**344 632**	**2 599**	—	**(20 494)**	**376 316**	**307 831**

[a] See notes 2, 3 and 4.

[b] The UNU Headquarters Building Operating Fund was previously accounted for in the UNU Centre Operating Fund. In order to improve the presentation, effective 1 January 2006, this fund is shown separately.

[c] UNU-MERIT was created on 1 January 2006 integrating the former UNU-INTECH and the Maastricht Economic Research Institute on Innovation and Technology (MERIT), Maastricht.

[d] The UNU-IIGH Operating Fund in Kuala Lumpur, Malaysia, which contributes to the resolution of global health issues, particularly in relation to the needs of developing countries, was established effective 1 January 2006. The operations of UNU-HGH are funded by voluntary contributions from the Government of Malaysia.

[e] See note 5.

[f] Comparative figures have been restated to conform to the current presentation.

[g] Represents investments in bonds and equities, the market value of which was $334,966,585.

[h] Represents share of United Nations offices away from Headquarters cash pools and comprises cash and term deposits of $4,541,250, short-term investments of $2,543,423 (market value $2,544,029), long-term investments of $1,639,325 (market value $1,638,140) and accrued interest receivable of $35,366.

[i] Represents accrued liabilities for after-service health insurance costs of $3,944,000, for unused vacation days of $1,274,970, and for repatriation benefits of $1,474,369. These were previously disclosed in the notes and are now reflected in the financial statements as liabilities. See note 5.

The accompanying notes are an integral part of the financial statements.

Schedule 2.1

United Nations University
Combined status of pledges unpaid as at 31 December 2007

(Thousands of United States dollars)

Operating funds	*Unpaid pledges as at 1 January 2006*	*Add: pledges for 2006-2007 and adjustments*	*Less: collection during 2006-2007*	*Add: gain (loss) on exchange*	*Unpaid pledges as at 31 December 2007*
UNU Centre					
Government donations:					
Belgium	—	194	196	2	—
Finland	—	5	5	—	—
Germany	—	2 520	2 520	—	—
Japan	—	3 536	3 536	—	—
Norway	—	17	17	—	—
The Netherlands	—	27	27	—	—
Subtotal	—	**6 299**	**6 301**	**2**	—
Other donations:					
Alchemy Foundation	—	30	30	—	—
American Council for UNU	—	160	160	—	—
American Geophysical Union	—	62	62	—	—
Asian Women's Fund	—	246	246	—	—
Banco do Brasil	—	50	50	—	—
Ericsson	—	27	27	—	—
European Commission	—	300	300	—	—
Foreign Affairs Canada	—	29	29	—	—
GRID Arendal	—	106	106	—	—
Hewlett Packard	—	33	33	—	—
International Course Participants	—	55	55	—	—
International Development Research Centre	—	68	68	—	—
Iwate Prefectural Government	—	34	34	—	—
Japan Foundation for the United Nations University	—	546	546	—	—
Kanagawa Foundation for Academic and Cultural Exchange	—	66	66	—	—
Kirin Brewery Company Ltd.	—	552	552	—	—
Nokia Oyj	—	27	27	—	—
Okinawa Prefectural Government	—	34	34	—	—
Swiss Federal Laboratories for Materials Testing and Research	—	50	50	—	—
United Nations Department of Agriculture	—	25	25	—	—
United Nations Educational, Scientific and Cultural Organization	—	129	129	—	—
United Nations Environment Programme	—	363	363	—	—
University of Bonn	—	158	158	—	—
World Health Organization	—	25	25	—	—
Zero Emissions Forum Secretariat	—	180	180	—	—
Others	—	391	391	—	—
Subtotal	—	**3 746**	**3 746**	—	—
Total, UNU Centre	—	**10 045**	**10 047**	**2**	—

United Nations University
Combined status of pledges unpaid as at 31 December 2007

(Thousands of United States dollars)

Operating funds	*Unpaid pledges as at 1 January 2006*	*Add: pledges for 2006-2007 and adjustments*	*Less: collection during 2006-2007*	*Add: gain (loss) on exchange*	*Unpaid pledges as at 31 December 2007*
UNU headquarters building					
Government donations:					
Japan	—	2 090	2 090	—	—
Total, UNU headquarters building	**—**	**2 090**	**2 090**	**—**	**—**
UNU-WIDER					
Government donations:					
Denmark	—	497	497	—	—
Finland	—	601	601	—	—
Norway	—	342	342	—	—
Sweden	—	1 942	1 942	—	—
United Kingdom of Great Britain and Northern Ireland	—	742	742	—	—
Total, UNU-WIDER	**—**	**4 124**	**4 124**	**—**	**—**
UNU-MERIT					
Government donations:					
Netherlands	—	5 547	5 547	—	—
Subtotal	**—**	**5 547**	**5 547**	**—**	**—**
Other donations:					
Adviesraad voor het Wetenschaps- en Technologiegebied	—	80	80	—	—
Department for International Development of the United Kingdom	—	98	98	—	—
European Parliament	—	66	66	—	—
Food and Agriculture Organization of the United Nations	—	117	117	—	—
International Development Research Centre	—	156	156	—	—
International Livestock Research Institute	—	32	32	—	—
United Nations Conference on Trade and Development	—	36	36	—	—
Others	—	30	30	—	—
Subtotal	**—**	**615**	**615**	**—**	**—**
Total, UNU-MERIT	**—**	**6 162**	**6 162**	**—**	**—**

Schedule 2.1 (continued)

United Nations University
Combined status of pledges unpaid as at 31 December 2007

(Thousands of United States dollars)

Operating funds	*Unpaid pledges as at 1 January 2006*	*Add: pledges for 2006-2007 and adjustments*	*Less: collection during 2006-2007*	*Add: gain (loss) on exchange*	*Unpaid pledges as at 31 December 2007*
UNU IIST					
Government donations:					
Macau China	—	958	958	—	—
Total, UNU-IIST	—	**958**	**958**	—	—
UNU-INRA					
Other donations:					
Others	—	19	19	—	—
Total, UNU-INRA	—	**19**	**19**	—	—
UNU-IAS					
Government donations:					
Japan	—	6 573	6 573	—	—
Australia	—	17	17	—	—
Subtotal	—	**6 590**	**6 590**	—	—
Other donations:					
United Nations Development Programme	—	48	48	—	—
Ishikawa Foundation for International Exchange	—	262	262	—	—
Institute for Global Environment Strategies	—	155	155	—	—
Asia Pacific Network	—	27	27	—	—
United Nations Environment Programme	—	324	324	—	—
The Christensen Fund	—	684	684	—	—
World Trade Organization		40	40		
Global Environment Forum	—	50	50	—	—
Others	—	53	53	—	—
Subtotal	—	**1 643**	**1 643**	—	—
Total, UNU-IAS	—	**8 233**	**8 233**	—	—

United Nations University
Combined status of pledges unpaid as at 31 December 2007

(Thousands of United States dollars)

Operating funds	*Unpaid pledges as at 1 January 2006*	*Add: pledges for 2006-2007 and adjustments*	*Less: collection during 2006-2007*	*Add: gain (loss) on exchange*	*Unpaid pledges as at 31 December 2007*
UNU-ILI					
Government donations:					
Jordan	—	1 000	750	—	250
Subtotal	—	**1 000**	**750**	—	**250**
Other donations:					—
Others	—	137	137	—	—
Subtotal	—	**137**	**137**	—	—
Total, UNU-ILI	—	**1 137**	**887**	—	**250**
UNU-INWEH					
Government donations:					
Canada	—	2 176	2 176	—	—
Jordan	—	40	40	—	—
Subtotal	—	**2 216**	**2 216**	—	—
Other donations:					
Arab Fund for Economic and Social Development	—	35	35	—	—
Arab Gulf Programme for United Nations Development Organizations	—	85	85	—	—
International Bank for Reconstruction and Development	—	148	148	—	—
Nakheel Corporation	—	719	719	—	—
National Fish and Wildlife Foundation	—	30	30	—	—
United Nations Educational, Scientific and Cultural Organization	—	222	222	—	—
United Nations	—	100	100	—	—
United Nations Office for Project Services	—	459	459	—	—
University of Queensland	—	739	739	—	—
Others	—	24	24	—	—
Subtotal	—	**2 561**	**2 561**	—	—
Total, UNU-INWEH	—	**4 777**	**4 777**	—	—
UNU-CRIS					
Government donations:					
Belgium	173	392	359	—	206
Total, UNU-CRIS	**173**	**392**	**359**	—	206

Schedule 2.1 (continued)

United Nations University
Combined status of pledges unpaid as at 31 December 2007

(Thousands of United States dollars)

Operating funds	*Unpaid pledges as at 1 January 2006*	*Add: pledges for 2006-2007 and adjustments*	*Less: collection during 2006-2007*	*Add: gain (loss) on exchange*	*Unpaid pledges as at 31 December 2007*
UNU-EHS					
Government donations:					
Germany	—	2 909	2 909	—	—
Subtotal	—	**2 909**	**2 909**	—	—
Other donations:					
Deutsches Zentrum fuer Luft-und Raumfahrt e.v.	—	372	372	—	—
European Commission	—	51	51	—	—
Federal Agency for Civil Protection and Disaster Management	—	264	264	—	—
Geographical Research Centre (Potsdam)	—	561	561	—	—
MunichRe Foundation	—	323	323	—	—
Others	—	67	67	—	—
United Nations/Water Decade Office on Capacity Development in Bonn	—	64	64	—	—
University of Bonn	—	273	273	—	—
University of York	—	29	29	—	—
Subtotal	—	**2 004**	**2 004**	—	—
Total, UNU-EHS	—	**4 913**	**4 913**	—	—
UNU-IIGH					
Government donations:					
Malaysia	—	1 650	1 650	—	—
Indonesia	—	5	5	—	—
Mongolia	—	33	33	—	—
Subtotal	—	**1 688**	**1 688**	—	—
Other donations:					
Others	—	1	1	—	—
Subtotal	—	**1**	**1**	—	—
Total, UNU-IIGH	—	**1 689**	**1 689**	—	—
Total, Operating funds	**173**	**44 539**	**44 258**	**2**	**456**

Schedule 2.1 (concluded)

United Nations University
Combined status of pledges unpaid as at 31 December 2007

(Thousands of United States dollars)

Endowment Fund	*Unpaid pledges as at 1 January 2006*	*Add: pledges for 2006-2007 and adjustments*	*Less: collection during 2006-2007*	*Add: gain (loss) on exchange*	*Unpaid pledges as at 31 December 2007*
Government donations:					
Germany	—	639	639	—	—
Ghana	2 074	—	577	—	1 497
Malaysia	—	8 000	8 000	—	—
Venezuela	3 003	—	—	—	3 003
Total, Endowment Fund	**5 077**	**8 639**	**9 216**	**—**	**4 500**

Trust Fund	*Unpaid pledges as at 1 January 2006*	*Add: pledges for 2006-2007 and adjustments*	*Less: collection during 2006-2007*	*Add: gain (loss) on exchange*	*Unpaid pledges as at 31 December 2007*
UNU-FAP					
Government donations:					
Japan	—	1 042	1 042	—	—
Total, Trust Fund	**—**	**1 042**	**1 042**	**—**	**—**
Grand total	**5 250**	**54 220**	**54 516**	**2**	**4 956**

Statement III

United Nations University[a]
Statement of cash flows for the biennium ended 31 December 2007

(Thousands of United States dollars)

	UNU Centre Operating Fund	*UNU Headquarters Building Operating Fund*[b]	*UNU-WIDER Operating Fund*	*UNU-MERIT Operating Fund*[c]	*UNU-IIST Operating Fund*	*UNU-INRA Operating Fund*	*UNU-BIOLAC Operating Fund*	*UNU-IAS Operating Fund*
Cash flows from operating activities								
Net excess (shortfall) of income over expenditure (statement I)	(1 124)	317	3 160	3 444	305	1 108	1 006	395
(Increase) decrease in contributions receivable	—	—	—	—	—	—	—	—
(Increase) decrease in inter-fund balances receivable	(565)	—	(26)	(12)	—	(1 138)	(1 055)	—
(Increase) decrease in other accounts receivable	113	(46)	2	(149)	(49)	(12)	—	(9)
(Increase) decrease in inter-office transactions pending processing	(1 073)	(951)	(502)	(196)	(234)	(106)	332	(7)
(Increase) decrease in deferred charges and other assets	13	—	10	(2)	(14)	—	—	(60)
Increase (decrease) in unliquidated obligations	(240)	343	104	163	269	(34)	79	(310)
Increase (decrease) in inter-fund balances payable	(52)	—	—	—	—	—	—	—
Increase (decrease) in other accounts payable	823	337	2	227	33	13	—	17
Increase (decrease) in other liabilities	—	—	—	—	—	—	—	—
Increase (decrease) in end-of-service and post-retirement liabilities	—	—	—	—	—	—	—	—
Less: interest income	(860)	—	(336)	(127)	(38)	(13)	—	—
Net cash flows from operating activities	**(2 965)**	**—**	**2 414**	**3 348**	**272**	**(182)**	**362**	**26**
Cash flows from investing activities								
(Increase) decrease in short-term investments	—	—	—	—	—	—	—	—
(Increase) decrease in long-term investments	—	—	—	—	—	—	—	—
(Increase) decrease in offices away from Headquarters cash pools	6 315	—	178	(2 500)	514	110	—	—
Plus: interest income	860	—	336	127	38	13	—	—
Net cash flows from investing activities	**7 175**	**—**	**514**	**(2 373)**	**552**	**123**	**—**	**—**
Cash flows from financing activities								
Savings on, or cancellation of, prior-period obligations	1 497	—	162	—	197	71	8	323
Other adjustments to reserves and fund balances	—	—	—	—	—	—	(370)	—
Transfers from cumulative surplus	(2 050)	—	(1 500)	(500)	(914)	—	—	(349)
Net cash flows from financing activities	**(553)**	**—**	**(1 338)**	**(500)**	**(717)**	**71**	**(362)**	**(26)**
Net increase (decrease) in cash and term deposits	**3 657**	**—**	**1 590**	**475**	**107**	**12**	**—**	**—**
Cash and term deposits, beginning of period	5 782	—	2 316	531	1 262	—	—	—
Cash and term deposits, end of period	**9 439**	**—**	**3 906**	**1 006**	**1 369**	**12**	**—**	**—**

United Nations University[a]
Statement of cash flows for the biennium ended 31 December 2007

(Thousands of United States dollars)

	UNU-ILI Operating Fund	*UNU-INWEH Operating Fund*	*UNU-CRIS Operating Fund*	*UNU-EHS Operating Fund*	*UNU-IIGH Operating Fund*[b]	*UNU-ICDF Operating Fund*	*UNU-RCF Operating Fund*	*UNU-JAF Operating Fund*
Cash flows from operating activities								
Net excess (shortfall) of income over expenditure (statement I)	(40)	561	(3)	517	1 709	(33)	—	(19)
(Increase) decrease in contributions receivable	(250)	—	(33)	—	—	—	—	—
(Increase) decrease in inter-fund balances receivable	—	—	—	—	(32)	33	—	19
(Increase) decrease in other accounts receivable	(333)	(7)	2	(134)	(2)	—	—	—
(Increase) decrease in inter-office transactions pending processing	995	(498)	31	3 403	(1 793)	—	—	—
(Increase) decrease in deferred charges and other assets	—	(15)	—	—	—	—	—	—
Increase (decrease) in unliquidated obligations	173	838	—	66	161	—	—	—
Increase (decrease) in inter-fund balances payable	—	—	—	—	—	—	—	—
Increase (decrease) in other accounts payable	2	327	—	(6)	—	—	—	—
Increase (decrease) in other liabilities	—	—	—	—	—	—	—	—
Increase (decrease) in end-of-service and post-retirement liabilities	—	—	—	—	—	—	—	—
Less: interest income	—	(187)	—	—	—	—	—	—
Net cash flows from operating activities	**547**	**1 019**	**(3)**	**3 846**	**43**	**—**	**—**	**—**
Cash flows from investing activities								
(Increase) decrease in short-term investments	—	—	—	—	—	—	—	—
(Increase) decrease in long-term investments	—	—	—	—	—	—	—	—
(Increase) decrease in offices away from Headquarters cash pools	—	—	—	—	—	—	—	—
Plus: interest income	—	187	—	—	—	—	—	—
Net cash flows from investing activities	**—**	**187**	**—**	**—**	**—**	**—**	**—**	**—**
Cash flows from financing activities								
Savings on, or cancellation of, prior period's obligations	—	140	3	46	—	—	—	—
Other adjustments to reserves and fund balances	(100)	—	—	—	—	—	—	—
Transfers from cumulative surplus	(423)	—	—	(224)	—	—	—	—
Net cash flows from financing activities	**(523)**	**140**	**3**	**(178)**	**—**	**—**	**—**	**—**
Net increase (decrease) in cash and term deposits	**24**	**1 346**	**—**	**3 668**	**43**	**—**	**—**	**—**
Cash and term deposits, beginning of period	(15)	812	—	1 920	—	—	—	—
Cash and term deposits, end of period	**9**	**2 158**	**—**	**5 588**	**43**	**—**	**—**	**—**

United Nations University[a]
Statement of cash flows for the biennium ended 31 December 2007

(Thousands of United States dollars)

	Operating Funds	*Endowment Fund*	*Trust Fund*	*End-of-service and post-retirement liabilities*[c]	*All funds eliminations*	*Total 2007*	*Total 2005*
Cash flows from operating activities							
Net excess (shortfall) of income over expenditure (statement I)	11 303	57 243	205	(723)	—	68 028	7 690
(Increase) decrease in contributions receivable	(283)	577	—	—	—	294	3 187
(Increase) decrease in inter-fund balances receivable	(2 776)	(159)	—	—	2 935	—	—
(Increase) decrease in other accounts receivable	(624)	(190)	98	—	—	(716)	(1 779)
(Increase) decrease in inter-office transactions pending processing	(599)	—	599	—	—	—	—
(Increase) decrease in deferred charges and other assets	(68)	—	—	—	—	(68)	22
Increase (decrease) in unliquidated obligations	1 612	—	8	—	—	1 620	227
Increase (decrease) in inter-fund balances payable	(52)	2 987	—	—	(2 935)	—	—
Increase (decrease) in accounts payable	1 775	172	455	—	—	2 402	(495)
Increase (decrease) in other liabilities	—	—	—	—	—	—	(285)
Increase (decrease) in end-of-service and post-retirement liabilities	—	—	—	6 693	—	6 693	—
Less: interest income	(1 561)	(51 707)	—	—	—	(53 268)	(31 718)
Net cash flows from operating activities	**8 727**	**8 923**	**1 365**	**5 970**	—	**24 985**	**(23 151)**
Cash flows from investing activities							
(Increase) decrease in short-term investments	—	(2 221)	—	—	—	(2 221)	2 138
(Increase) decrease in long-term investments	—	(55 823)	—	—	—	(55 823)	(8 012)
(Increase) decrease in offices away from Headquarters cash pools	4 617	—	—	—	—	4 617	15 527
Plus: interest income	1 561	51 707	—	—	—	53 268	31 718
Net cash flows from investing activities	**6 178**	**(6 337)**	—	—	—	**(159)**	**41 371**
Cash flows from financing activities							
Savings on, or cancellation of, prior-period obligations	2 447	—	254	—	—	2 701	2 554
Other adjustments to reserves and fund balances	(470)	470	—	(5 970)	—	(5 970)	—
Transfers from cumulative surplus	(5 960)	—	(1 029)	—	—	(6 989)	(15 636)
Net cash flows from financing activities	**(3 983)**	**470**	**(775)**	**(5 970)**	—	**(10 258)**	**(13 082)**
Net increase (decrease) in cash and term deposits	**10 922**	**3 056**	**590**	—	—	**14 568**	**5 138**
Cash and term deposits, beginning of period	12 608	8 434	292	—	—	21 334	16 196
Cash and term deposits, end of period	**23 530**	**11 490**	**882**	—	—	**35 902**	**21 334**

[a] See notes 2, 3 and 4.
[b] The UNU Headquarters Building Operating Fund was previously accounted for in the UNU Centre Operating Fund. In order to improve the presentation, effective 1 January 2006, this fund is shown separately.
[c] UNU-MERIT was created on 1 January 2006 integrating the former UNU-INTECH and the Maastricht Economic Research Institute on Innovation and Technology (MERIT), Maastricht.
[d] The UNU-IIGH Operating Fund in Kuala Lumpur, Malaysia, which contributes to the resolution of global health issues, particularly in relation to the needs of developing countries, was established effective 1 January 2006. The operations of UNU-IIGH are funded by voluntary contributions from the Government of Malaysia.
[e] See note 5.

The accompanying notes are an integral part of the financial statements.

08-43767

United Nations University
Statement of appropriations for the biennium ended 31 December 2007

(Thousands of United States dollars)

Appropriation sections	*Appropriations*[a]	*Expenditures*			*Unencumbered balance*
		Disbursements	*Unliquidated obligations*	*Total expenditures*	
UNU Centre					
Staff and other personnel costs	18 287	15 787	497	16 284	2 003
General expenses	2 859	2 774	451	3 225	(366)
Research, training networks and dissemination	13 324	7 523	2 107	9 630	3 694
Subtotal	**34 470**	**26 084**	**3 055**	**29 139**	**5 331**
UNU headquarters building					
Staff and other personnel costs	451	339	90	429	22
General expenses	4 290	3 968	252	4 220	70
Research, training networks and dissemination	—	—	1	1	(1)
Subtotal	**4 741**	**4 307**	**343**	**4 650**	**91**
UNU-WIDER					
Staff and other personnel costs	4 230	3 985	16	4 001	229
General expenses	800	519	25	544	256
Research, training networks and dissemination	4 830	2 748	703	3 451	1 379
Subtotal	**9 860**	**7 252**	**744**	**7 996**	**1 864**
UNU-MERIT					
Staff and other personnel costs	4 559	2 720	53	2 773	1 786
General expenses	775	611	18	629	146
Research, training networks and dissemination	4 116	1 899	282	2 181	1 935
Subtotal	**9 450**	**5 230**	**353**	**5 583**	**3 867**
UNU-IIST					
Staff and other personnel costs	2 784	2 670	23	2 693	91
General expenses	528	388	72	460	68
Research, training networks and dissemination	2 358	1 594	575	2 169	189
Subtotal	**5 670**	**4 652**	**670**	**5 322**	**348**

Statement IV (continued)

United Nations University
Statement of appropriations for the biennium ended 31 December 2007

(Thousands of United States dollars)

Appropriation sections	*Appropriations*[a]	*Expenditures*			*Unencumbered balance*
		Disbursements	*Unliquidated obligations*	*Total expenditures*	
UNU-INRA					
Staff and other personnel costs	1 164	1 066	—	1 066	98
General expenses	223	194	82	276	(53)
Research, training networks and dissemination	129	23	6	29	100
Subtotal	**1 516**	**1 283**	**88**	**1 371**	**145**
UNU-BIOLAC					
Staff and other personnel costs	—	—	—	—	—
General expenses	—	3	—	3	(3)
Research, training networks and dissemination	969	823	133	956	13
Subtotal	**969**	**826**	**133**	**959**	**10**
UNU-IAS					
Staff and other personnel costs	2 533	2 040	5	2 045	488
General expenses	1 876	1 307	68	1 375	501
Research, training networks and dissemination	6 583	4 136	657	4 793	1 790
Subtotal	**10 992**	**7 483**	**730**	**8 213**	**2 780**
UNU-ILI					
Staff and other personnel costs	1 039	530	109	639	400
General expenses	763	495	90	585	178
Research, training networks and dissemination	619	408	122	530	89
Subtotal	**2 421**	**1 433**	**321**	**1 754**	**667**
UNU-INWEH					
Staff and other personnel costs	1 272	1 224	45	1 269	3
General expenses	458	337	105	442	16
Research, training networks and dissemination	3 306	2 217	1 054	3 271	35
Subtotal	**5 036**	**3 778**	**1 204**	**4 982**	**54**

United Nations University
Statement of appropriations for the biennium ended 31 December 2007

(Thousands of United States dollars)

Appropriation sections	*Appropriations*[a]	*Expenditures*			*Unencumbered balance*
		Disbursements	*Unliquidated obligations*	*Total expenditures*	
UNU-CRIS					
Staff and other personnel costs	365	371	—	371	(6)
General expenses	35	22	3	25	10
Research, training networks and dissemination	—	—	—	—	—
Subtotal	**400**	**393**	**3**	**396**	**4**
UNU-EHS					
Staff and other personnel costs	1 530	1 923	(149)	1 774	(244)
General expenses	463	603	40	643	(180)
Research, training networks and dissemination	3 405	2 116	559	2 675	730
Subtotal	**5 398**	**4 642**	**450**	**5 092**	**306**
UNU-IIGH					
Staff and other personnel costs	1 289	346	152	498	791
General expenses	295	73	8	81	214
Research, training networks and dissemination	666	—	1	1	665
Subtotal	**2 250**	**419**	**161**	**580**	**1 670**
Others					
Joint Activity Fund	276	19	—	19	257
Innovative Capacity Development Fund	150	33	—	33	117
Subtotal	**426**	**52**	**—**	**52**	**374**
Grand total	**93 599**	**67 834**	**8 255**	**76 089**	**17 509**

[a] As approved by the UNU Council for the biennium 2006-2007, together with authorized spending against income received from contributions for specific programmes.

Notes to the financial statements

Note 1
The United Nations University and its activities

(a) The Charter of the United Nations University (UNU) was adopted by the General Assembly in resolution 3081 (XXVIII) of 6 December 1973.

(b) The mission of UNU, a non-traditional international educational institution, is to carry out scholarly work of the highest quality to help resolve pressing global problems of human survival, development and welfare. To this end, the UNU focuses its research, postgraduate education and knowledge dissemination activities on the most critical problems of concern to the United Nations, in particular those that affect developing countries.

(c) Through its work, UNU strives to achieve two main goals: to strengthen the capacities of institutions of higher education in developing countries to carry out high-quality research and training, and to make scholarly and policy-relevant contributions to the work of the United Nations.

(d) To accomplish these objectives, the UNU Centre in Tokyo plans, coordinates and funds academic activities carried out through its 11 research and training centres and programmes: The headquarters building operating fund in Tokyo, Japan; the World Institute for Development Economics Research (UNU-WIDER) in Helsinki, Finland; the Maastricht Economic and Social Research and Training Centre on Innovation and Technology (UNU-MERIT) in Maastricht, the Netherlands; the International Institute for Software Technology (UNU-IIST) in Macao, China; the Institute for Natural Resources in Africa (UNU-INRA) in Accra, Ghana; the Programme for Biotechnology in Latin America and the Caribbean (UNU-BIOLAC) in Caracas, Venezuela; the Institute of Advanced Studies (UNU-IAS) in Yokohama, Japan; the International Leadership Institute (UNU-ILI) in Amman, Jordan; the International Network on Water, Environment and Health (UNU-INWEH) in Hamilton, Canada; the Comparative Regional Integration Studies (UNU-CRIS) in Bruges, Belgium; the Programme on Environment and Human Security (UNU-EHS) in Bonn, Germany; the International Institute for Global Health (UNU-IIGH) in Kuala Lumpur, Malaysia; the Joint Activity Fund (UNU-JAF) in Tokyo, Japan; the Innovative Capacity Development Fund (UNU-ICDF) in Tokyo, Japan; the Revolving Cash Fund (UNU-RCF) in Tokyo, Japan; the Financial Assistance Programme (UNU-FAP) in Tokyo, Japan, which is operated through a trust fund.

Note 2
Summary of significant accounting policies

(a) The accounts of UNU are maintained in accordance with the Financial Regulations and Rules of the United Nations as adopted by the General Assembly, the rules formulated by the Secretary-General as required under the regulations, and administrative instructions issued by the Under-Secretary-General for Management, or the Controller. They also take fully into account the United Nations system accounting standards, as adopted by the United Nations System Chief Executives Board for Coordination (CEB). The United Nations University follows international accounting standard 1, Presentation of Financial Statements, in regard to the

disclosure of accounting policies, as modified and adopted by the CEB, as shown below:

(i) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons;

(ii) Prudence, substance over form, and materiality should govern the selection and application of accounting policies;

(iii) Financial statements should include clear and concise disclosure of all significant accounting policies used;

(iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. These policies should normally be disclosed in one place;

(v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;

(vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified.

(b) The UNU accounts are maintained on a "fund accounting" basis. Separate funds for general or special purposes may be established by the General Assembly or the Secretary-General. Each fund is maintained as a distinct financial and accounting entity. The financial statements reflect the activities of each fund or group of funds of the same nature.

(c) The financial period of UNU is a biennium and consists of two consecutive calendar years.

(d) In general, income, expenditure, assets and liabilities are recognized on the accrual basis of accounting.

(e) The accounts of UNU are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transaction at rates of exchange established by the Controller. In respect of such currencies, the financial statements shall reflect the cash, investments, unpaid pledges and current accounts receivable and payable in currencies other than United States dollars, translated at the applicable United Nations rates of exchange in effect as at the date of the statements. In the event that the application of actual exchange rates at the date of the statements provides a valuation materially different from the application of United Nations rates of exchange as at the end of the financial period, a footnote will be presented quantifying the difference.

(f) The financial statements of UNU are prepared on the historical cost basis of accounting and are not adjusted to reflect the effects of changing prices for goods and services.

(g) The statement of cash flows is based on the "indirect method" of cash flows, as referred to in the United Nations system accounting standards.

(h) The financial statements of UNU are presented in accordance with the ongoing recommendations of the Task Force on Accounting Standards to the High-level Committee on Management.

(i) Income:

(i) The University derives its income from two sources — income from the Endowment Fund and contributions to the operating funds and to the Trust Fund;

(ii) Pledged voluntary contributions from governments to the Endowment Fund are recorded as income on the basis of a written commitment by a prospective donor to pay a monetary contribution at a specified time. Pledges for future years are recorded as deferred income;

(iii) All government contributions, unless otherwise specified, are credited to the Endowment Fund. The income derived from the investments of the Endowment Fund is allocated to the operating funds in accordance with decisions of the UNU Council;

(iv) Interest income includes all interest earned on deposits in various bank accounts, investment income earned on short-term and long-term investments and investment income earned in the cash pools for United Nations offices away from Headquarters. All realized losses and net unrealized losses on short-term investments are offset against investment income. Investment income and costs associated with the operation of investments in the United Nations offices away from Headquarters cash pools are allocated to participating funds;

(v) Income for services rendered represents services provided to the United Nations and other organizations which occupy offices in the UNU building and from external users of the conference and exhibition facilities;

(vi) Effective 1 January 2006, transfers from the Endowment Fund to the respective operating funds are shown as part of income of operating funds. In the biennium 2004-2005, these transfers were not included in income but were shown in the line "Transfers (to) from other funds". In addition, effective 1 January 2006, transfers from cumulative surplus that were authorized by the Governing Council to supplement available funding for the respective operating funds for the biennium 2006-2007, are shown as part of income in the "Transfers from cumulative surplus" line in statement I. These changes result in an improved presentation of income available to the operating funds. Comparative figures have been restated;

(vii) Miscellaneous income includes income from sale of used or surplus property, refunds of expenditures charged to prior periods, income from net gains resulting from currency translations, monies accepted for which no purpose was specified and other sundry income.

(j) Expenditure:

(i) Expenditures are incurred against authorized allotments. Total expenditures reported include unliquidated obligations and disbursements;

(ii) Expenditures incurred for non-expendable property are charged to the budget for the period in which it is acquired and are not capitalized. Inventory of such non-expendable property is maintained at historical cost;

(iii) Expenditures for future financial periods are not charged to the current financial period and are recorded as deferred charges, as referred to in subparagraph (k) (vi) below;

(iv) Transfers from the Endowment Fund to operating funds are included as part of expenditures of the Endowment Fund. See note (i) (vi) above.

(k) Assets:

(i) Cash and term deposits represent funds held in demand deposit accounts and interest-bearing bank deposits;

(ii) Investments comprise investments in bonds and equities. Short-term investments are stated at lower of cost or market; long-term investments are stated at cost. No provision is made for amortization of premiums or discounts which are taken into account as part of the gain or loss when investments are sold;

(iii) The cash pools for United Nations offices away from Headquarters comprise participating funds' share of cash and term deposits, short-term and long-term investments and accrual of investment income, which are managed in cash pools for the United Nations offices away from Headquarters. Short-term investments are stated at lower of cost or market; long-term investments are stated at cost; cost is defined as the nominal value plus or minus any unamortized premium or discount. Share in the United Nations offices away from Headquarters cash pools is reported separately for each of the participating fund and its composition and the market value of its investments are disclosed in the footnotes to the financial statements;

(iv) Inter-fund balances reflect transactions between the operating funds and the Endowment Fund. Inter-fund balances are settled periodically, depending upon the availability of cash resources;

(v) Inter-office transactions pending processing reflect transactions between the UNU Centre and its research/training centres and programmes;

(vi) Deferred charges normally comprise expenditure items that are not properly chargeable in the current financial period. They will be charged as expenditure in a subsequent period. These expenditure items include commitments for future financial periods in accordance with financial rule 106.7. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead times are required for delivery;

(vii) For purposes of the balance sheet statement only, those portions of the education grant advances that are assumed to pertain to the scholastic year completed as at the date of the financial statement are shown under deferred charges. The full amounts of the advances are maintained as accounts receivables from staff members until the required proof of entitlement is produced, at which time the budgetary accounts are charged and the advances settled;

(viii) Maintenance and repairs of capital assets are charged against the appropriate budgetary accounts. Furniture, equipment, other non-expendable property and leasehold improvements are not included in the assets of the University. Such acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is disclosed in notes to the financial statements.

(l) Liabilities and reserves and fund balances:

(i) Unliquidated obligations for future years are reported both as deferred charges and as unliquidated obligations;

(ii) Deferred income includes pledged contributions for future periods;

(iii) Commitments of UNU relating to prior, current and future financial periods are shown as unliquidated obligations. Current period obligations related to the operating funds, the Endowment Fund and the Trust Fund remain valid for 12 months following the end of the biennium to which they relate;

(iv) The Endowment Fund of the United Nations University represents the working capital fund of the UNU Centre and certain research and training centres. The fund principal represents the contributions from the donors to the Centre or specified research and training centres and is invested to earn income. Pursuant to the decision of the UNU Council at its forty-ninth session, maximum annual withdrawal is capped at 5 per cent of the five-year average market value of endowment fund (see note 4 (a) (iv));

(v) Authorized retained surplus represents the amounts set aside as contingency funds to cover any shortfall or delay in the payment of expected contributions, to compensate for any reduction in estimated income due to currency fluctuations, and to cover any special maintenance costs for the headquarters building;

(vi) Balances related to projects funded by donors represent the amount of specific programme contributions unspent during the period;

(vii) Accrued liabilities for end-of-service and post-retirement benefits, comprising those for after-service health insurance, unused vacation days and repatriation benefits, which were previously disclosed in the notes to the financial statements, are effective 1 January 2006 included as liabilities in the statement of assets, liabilities and reserves and fund balances. The change in presentation is made in order to recognize such liabilities when incurred, and is in accordance with General Assembly resolution 60/255 of 8 May 2006 with respect to recognition of after-service health insurance liabilities. See note 5;

(viii) Contingent liabilities, if any, are disclosed in the notes to the financial statements;

(ix) The University is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded, defined benefit plan. The financial obligation of UNU to the Pension Fund consists of its mandated contribution at the rate established by the General Assembly, together with its share of any actuarial deficiency payments under article 26 of the regulations of the Pension Fund.

Such deficiency payments are only payable if and when the General Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date. As at the date of the current financial statements, the General Assembly has not invoked this provision.

(m) Trust funds may be established by the Rector. The University follows the general provisions of the Secretary-General's bulletin ST/SGB/188, on the establishment and management of trust funds, and its supporting administrative instructions ST/AI/284, ST/AI/285 and ST/AI/286, although as indicated in paragraph 3 of ST/SGB/188, that bulletin does not apply to institutions such as UNU, which are subject to the administrative authority of their executive heads.

Note 3

Income and expenditure and changes in reserves and fund balances (statement I); assets, liabilities and reserves and fund balances (statement II); and cash flows (statement III)

(a) Statements I, II and III contain financial results for all UNU funds, which are totalled into four groups of related funds and, after elimination, combined into a grand total that reflects the activities of the University. This combined presentation should not be interpreted to mean that any individual fund can be used for any purpose other than that for which it is authorized. The four groups consist of:

(i) "Operating funds", which comprise UNU Centre, UNU-headquarters building, UNU-WIDER, UNU-MERIT, UNU-IIST, UNU-INRA, UNU-BIOLAC, UNU-IAS, UNU-ILI, UNU-INWEH, UNU-CRIS, UNU-EHS, UNU-IIGH, UNU-JAF, UNU-ICDF and UNU-RCF;

(ii) "Endowment Fund";

(iii) "Trust Fund" for the Financial Assistance Programme (UNU-FAP);

(iv) "End-of-service and post-retirement liabilities" for liabilities relating to after-service health insurance, unused vacation days and repatriation benefits.

(b) Statement I includes two calculations of the excess or shortfall of income compared with expenditure. The first calculation is based on income and expenditure only for the current period of the biennium. The second calculation shown is a net one, which includes non-budgeted accrued expenses for end-of-service and post-retirement benefits and any prior-period adjustments to income or expenditure.

(c) All funds eliminations. Upon combination of all funds into the three groups (note 3 (a)), eliminations of transactions that occur across the groups (i.e., inter-group transactions) are required in order for a fair presentation of the "Total" column. These eliminations include transactions that comprise income of one group of funds but are the expense of another group, or a receivable of one group that is the payable of another group. All such eliminations are presented in the "All funds elimination" column.

Note 4
United Nations University funds (statements I, II and III)

(a) *Investments*. In accordance with the decisions of the UNU Council, the investment and distribution policies with respect to the Endowment Fund are:

(i) To invest 40 to 50 per cent in fixed income, 45 to 55 per cent in equity and 5 per cent in cash;

(ii) To focus on total return instead of on income or capital gains; by definition, a well-diversified portfolio should protect the principal;

(iii) To use a rolling five-year asset base forecast and target a percentage of total assets as the budget for transfers to fund operations;

(iv) To adopt 5 per cent of the five-year average endowment market value as the maximum endowment spending level annually.

(b) *Cash and term deposits, investments and cash pools of the United Nations offices away from Headquarters*.

The following tables show the breakdown of the total of cash and term deposits, short-term and long-term investments and the United Nations offices away from Headquarters cash pools that are included in statement II, by currency and type of investment (in thousands of United States dollars):

Currency	*United States dollar equivalent*
United States dollars	122 879
Euros	120 958
Japanese yen	72 999
British pounds	25 692
Others	23 264
Total	**365 792**

Type of investment		*United States dollar equivalent*[a]
Cash and term deposits		35 902
Short-term investments: Bonds		8 785
Long-term investments:		
Bonds	156 171	
Equities	156 175	
		312 346
United Nations offices away from Headquarters cash pools		8 759
Total		**365 792**

[a] The market value as at 31 December 2007 was $8,784,840 for short-term investments and $326,181,745 for long-term investments. As indicated in footnote h of statement II, assets, liabilities, reserves and fund balances, the market values of the short-term and long-term investments in the United Nations offices away from Headquarters cash pools as at 31 December 2007 were $2,544,029 and $1,638,140, respectively.

(c) *Voluntary contributions receivable.* The following is an aged analysis of the pledged contributions unpaid included in statement II (in thousands of United States dollars):

Country	*Less than one year*	*More than one year*	*Total, 2007*	*Total, 2005*
Jordan	250	—	250	—
Belgium	206	—	206	173
Ghana	—	1 497	1 497	2 074
Venezuela	—	3 003	3 003	3 003
Total	**456**	**4 500**	**4 956**	**5 250**

(d) *Other accounts receivable.* The following table is an aged analysis of other accounts receivable included in statement II (in thousands of United States dollars):

Other accounts receivable	*Less than one year*	*More than one year*	*Total, 2007*	*Total, 2005*
Governments	—	—	—	224
Staff members	296	88	384	448
Vendors	36	213	249	177
Other United Nations entities	481	26	507	557
Accrued interest	2 869	—	2 869	2 670
Others	1 227	34	1 261	478
Total	**4 909**	**361**	**5 270**	**4 554**

(e) *Deferred charges and other assets.* The following table is an analysis of deferred charges and other assets included in statement II (in thousands of United States dollars):

Deferred charges and other assets	*2007*	*2005*
Education grant advances	254	143
Others	44	87
Total	**298**	**230**

(f) *Other accounts payable.* The following table is an analysis of other accounts payable included in statement II (in thousands of United States dollars):

Other accounts payable	*2007*	*2005*
Due to other United Nations entities	941	395
Others	2 652	796
Total	**3 593**	**1 191**

(g) *Reserves and fund balances*. The following table shows the composition of total reserves and fund balances (in thousands of United States dollars):

Reserves and fund balances	*2007*	*2005*
Net excess (shortfall) of income over expenditure	68 028	7 690
Savings on, or cancellation of, prior-period obligations	2 701	2 554
Other adjustments to reserves and fund balances	(5 970)	—
Transfers from cumulative surplus	(6 989)	(15 636)
Subtotal	**57 770**	**(5 392)**
Reserves and fund balances, beginning of period	299 542	304 934
Reserves and fund balances, end of period	**357 312**	**299 542**

(h) *Endowment Fund*. The following table shows the composition of Endowment Fund by Centre and research and training centres (in thousands of United States dollars):

	31 December 2007			*31 December 2005*		
Centre and research and training centres	*Principal*	*Cumulative surplus/ (deficit)*	*Total*	*Principal*	*Cumulative surplus/ (deficit)*	*Total*
UNU-Centre	128 161	54 975	183 136	128 161	26 968	155 129
UNU-WIDER	36 256	19 590	55 847	36 256	11 048	47 304
UNU-MERIT	15 429	7 023	22 452	15 429	3 560	18 989
UNU-IIST	29 997	13 123	43 120	29 997	6 520	36 517
UNU-INRA	6 391	(1 110)	5 281	6 391	(188)	6 203
UNU-BIOLAC	10 000	2 297	12 297	10 000	1 378	11 378
UNU-ILI	1 000	901	1 901	1 000	512	1 512
UNU-EHS	2 536	771	3 306	1 897	—	1 897
UNU-IIGH	8 000	1 304	9 304	—	—	—
Total	**237 770**	**98 874**	**336 644**	**229 131**	**49 798**	**278 929**

Note 5
Accrued liabilities for end-of-service and post-retirement benefits

(a) Upon end of service, eligible staff members are entitled to after-service health insurance coverage and to be paid for any unused vacation days up to a maximum of 60 days and repatriation benefits based on the number of years of service. Effective 1 January 2006, the three types of liabilities are recognized in the financial accounts. The liabilities have been recorded through an adjustment to reserves and fund balances as shown in statement I. Previously, these liabilities were disclosed in the notes to the financial statements.

(b) In order to gain a better understanding of the financial dimensions of the University's liabilities for after-service health insurance, which is a defined benefit plan, a consulting actuary was engaged to carry out an actuarial valuation of after-service health insurance benefits. The major assumptions used by the actuary

were: a discount rate of 5.5 per cent; health-care escalation rates of 9.5 per cent in 2008, grading down to 5.0 per cent in 2015 and later years for United States medical plans, and 5.7 per cent in 2008, grading down to 4.5 per cent in 2012 and later years for medical plans outside the United States of America; and retirement, withdrawal and mortality assumptions consistent with those used by the UNJSPF in making its own actuarial valuation. On the basis of these assumptions, it is estimated that the University's liability as at 31 December 2007 for after-service health insurance benefits is as follows:

After-service health insurance liability	*Present value of future benefits*	*Accrued liability*
Gross liability	7 801	4 925
Offset from retiree contributions	(1 660)	(981)
Net liability	**6 141**	**3 944**

(c) The present value of future benefits figures shown above are the discounted values of all benefits to be paid in future to all current retirees and active employees who would be eligible for after-service health insurance upon retirement. The accrued liability represents those portions of the present values of benefits that have accrued from the staff members' dates of entry on duty until the valuation date. Active staff members' benefits are fully accrued on the date on which they become fully eligible for benefits.

(d) The University's total liability for unused vacation days and accrued repatriation benefits has been recorded as of 31 December 2007, and is estimated to be $1,274,970 and $1,474,369, respectively.

Note 6
Contributions in kind

During the biennium 2006-2007 ending 31 December 2007, the University received voluntary contributions in kind for various goods and services from Governments and other organizations. The estimated fair value of such contributions in kind is as follows (in thousands of United States dollars):

Location	*2007*
UNU Centre, Tokyo, Japan	386
UNU, Paris, France	65
UNU-Vice Rectorate in Europe, Bona, Germany	65
UNU-IIST, Macao, China	545
UNU-IAS, Yokohama, Japan	2 132
UNU-CRIS, Bruges, Belgium	192
Total	**3 385**

Note 7
Non-expendable property

(a) In accordance with the University's accounting policies, non-expendable property is not included in the fixed assets of UNU but is charged against the current appropriations when acquired. The following table shows the non-expendable property at the UNU Centre and the UNU research and training centres, according to the cumulative records of the UNU (in thousands of United States dollars):

Location	*2007*	*2005*
UNU Centre, Tokyo, Japan	2 608	2 647
UNU Centre, Kuala Lumpur, Malaysia	56	—
UNU, New York, USA	67	100
UNU, Paris, France	47	49
UNU-Vice Rectorate in Europe, Bonn, Germany	52	—
UNU-WIDER, Helsinki, Finland	211	370
UNU-MERIT, Maastricht, the Netherlands	432	371
UNU-IIST, Macao, China	401	420
UNU-INRA, Accra, Ghana	156	146
UNU-INRA Unit, Lusaka, Zambia	141	144
UNU-BIOLAC, Caracas, Venezuela	44	15
UNU-IAS, Yokohama, Japan	721	800
UNU-ILI, Amman, Jordan	332	42
UNU-INWEH, Hamilton, Canada	160	127
UNU-EHS, Bonn, Germany	258	256
UNU-IIGH, Kuala Lumpur, Malaysia	15	—
Total	**5 701**	**5 487**

(b) A summary of the change in non-expendable property is as follows (in thousands of United States dollars):

	2007
Opening balance as at 1 January 2006	5 487
Add: acquisitions	832
Less: write-offs — accidents, thefts and damages	(2)
Less: dispositions and adjustments	(616)
Balance as at 31 December 2007	**5 701**

In addition to the above-listed inventory records, furniture and equipment for the UNU Centre and the research and training centres/programmes have been made available by the respective host countries and certain private donors. Separate inventory records are maintained for such furniture and equipment and donated items.

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